



# Customer Focus

## About this Topic: Customer Focus



### Topic Mentor

#### James L. Heskett

James L. Heskett has published extensively on customers, service, customer retention, employee capability, and profitability. He is Professor Emeritus at Harvard Business School, where he has taught courses in service management, business policy, marketing, business logistics, and general management since 1965. He is a co-author of *The Service-Profit Chain* and *Service Breakthroughs: Changing the Rules of the Game* and a CD-ROM for managers titled *Service Success*.

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## What Would You Do?

### What would you do?

Carol insisted that bringing the new client on board was going to be great for business. Rosa disagreed. The client was notorious for getting bargain rates from one supplier and then jumping ship when the next big deal came along. Rosa was convinced the new client wouldn't stick around long enough to become profitable. To make matters worse, Rosa knew that Carol's strategy for wooing this client involved moving resources from the older, more profitable accounts to this new one. How could she prove to Carol that, at the very least, they should do everything possible to keep their loyal, profitable customers happy?

### What would you do?

Rosa needs to show Carol that, while making individual sales is important, real profit comes from nourishing a relationship with a customer and watching it grow. She might sit down with Carol and explain the concept of the "lifetime value" of a customer and actually calculate the lifetime value of one of their clients. She could demonstrate how cultivating an ongoing relationship with a customer creates a steady revenue stream that requires less marketing. Loyal customers tend to buy related products, as well as generate additional revenue through positive referrals. Rosa might then help Carol calculate the potential revenue streams from an existing loyal client and from the new one.

In this topic, you will learn about the lifetime value of a customer, and why it makes sense to build loyalty among your target customers.

Closing individual sales, in most businesses, is not enough for success. Success depends on developing profitable lifetime relationships with customers. But gaining customer loyalty requires hard work, care, and attentiveness.

## Topic Objectives

This topic contains information about how to:

- Understand the service-profit chain—and in particular the interrelationships among customer satisfaction, customer loyalty, employee capability, and company profitability
- Build and refine a process for delivering extraordinary value to these key customers

## Key Idea: The three Rs

### Key Idea

Studies show that the longer customers are loyal, the more profitable they become. Why? The answer has to do with what are known as the three Rs of customer loyalty.

The first R of customer loyalty is **retention**. An ongoing relationship with a customer creates a steady stream of revenue over time as the customer continues to buy products. The costs associated with marketing decline, and, in many cases, so do the costs of actually serving the customer who becomes familiar with the company, its product lines, and its procedures.

Loyal customers also generate **related sales**, the second R. The profit generated by selling new products and services to existing customers is greater than it is for selling to new customers. The forward-thinking company develops new products by listening to its loyal customers. Loyal customers are therefore more likely to buy because the new product has been designed to meet their needs, and because they have a degree of faith in the company already.

In fact, the original product may generate a minor profit compared to related sales over time. New sales to existing customers are less costly, because they require less marketing, no new credit checks, less paperwork, and less time. Furthermore, loyal customers are often less sensitive to price than new customers.

Positive **referrals**, the third R, are the best kind of marketing—and they're free! Positive customer referrals are vital to profit and growth. Research suggests that satisfied customers are likely to tell five other people about a good experience, while dissatisfied customers are likely to tell eleven other people about a bad one. From your own experience, you know that personal referrals carry much more weight than traditional marketing.

Customer loyalty creates profit in three ways. Each of these ways requires little investment of sales and marketing dollars from your company.

## Internal customers

The three Rs also come into play when your job involves serving internal customers—other individuals, groups, or teams within the organization. The longer a positive relationship lasts with an internal customer, the more you both accomplish together. As a long-term relationship with internal customers grows, the relationship becomes more and more effective, which in turn affects the company's profitability. In a truly effective internal relationship, a synergy forms. Two groups within an

organization can work together to develop new products or serve a customer in increasingly innovative and creative ways. What's more, you don't have to work exclusively with external customers to know that favorable reports about your group create goodwill and positive expectations. A bad reputation creates negative expectations, decreased credibility, and ongoing friction with other groups. Free marketing or bad press? The choice you make is the key to your reputation and your bottom line.

## Misguided marketing

“ Various estimates place the cost to attract new customers at five or more times the cost of retaining existing ones. ”  
–James L. Heskett

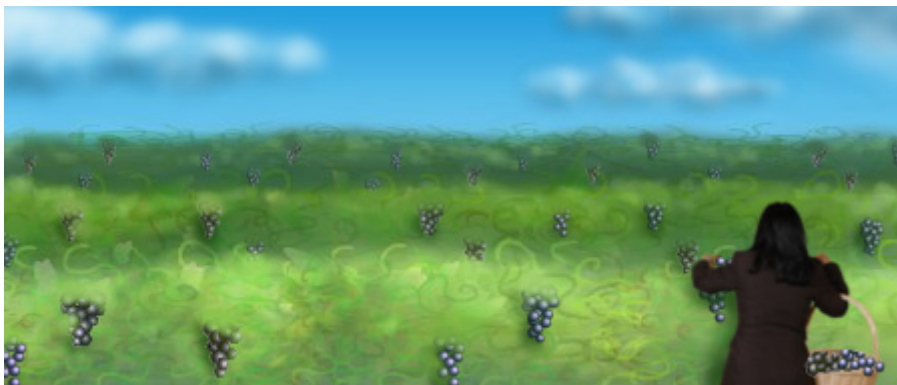
The illustration below represents a typical marketing budget. As you can see, only a small fraction of the entire budget is devoted to maintaining loyal customers.

Most companies today don't work very hard at developing a relationship with a long-term customer. They focus nearly all their energy and money on getting new customers. They promise low, introductory rates and sign-up incentives, and, of course, they spend millions on marketing and advertising and lose money on bad debts.

The reward structure within the company is geared almost exclusively to luring new customers. The biggest incentives often go to employees who bring in new customers, not to those employees who work hard at keeping loyal internal and external customers satisfied.

Marketing budgets like these are driven by the misconception that if you want to make a profit, you must increase market share. This traditional marketing approach focuses on the four Ps—product, price, promotional activity, and "place" (distribution channels)—and leads to the misguided concept that any customer is a good customer.

## Seek the highest value



Not all customers are good customers—in fact, some customers are completely wrong for your company. Successful companies know exactly who their ideal customers are, and they focus their energy on creating products to please them, and only them.

Many customers are what you might call mercenaries—they're the kinds who, for example, change telephone services several times a year, lured by the cheapest rates and the biggest incentives. When the introductory offer runs out, so do they, long before they can ever be profitable.

A successful organization must concentrate on satisfying a targeted group of customers who place the highest value on the goods or services it offers. The company that does not make additional efforts to please these customers can stumble badly. Busy chasing the wrong customers, the company strays from what it does best, is more likely to encounter failure, and, in the process, alienates its most profitable customers.

## Find the right customers



Only focused efforts at product and service development will pay off in the long run. Successful organizations determine who their target customers are, and then do everything in their power to please and retain them. A well-defined target customer is a beacon for an organization to follow. (Sometimes, an organization can determine its target customers by looking at the other side of the coin—in other words, by asking who it should not try to please. After all, no company can please everybody, and some customers are simply not worth having.) Simply stated, targeted customers should be those who will be loyal over time.

One of the nation's most successful insurance companies was formed over 70 years ago to serve a very specific target market: better-than-average drivers. Working in farm states, agents were members of the community, constantly in touch with their customers, learning about what they needed and wanted. Marketing efforts were designed to attract members of the target market and to keep loyal target customers happy. For example, to reward customers' good driving practices, discounts were given at the end of three accident-free years.

## Leadership Insight: Change the product not the customer

There is an interesting, historical note about Kikkoman Soy Sauce. As you probably know, Kikkoman is the world's largest seller of soy sauce — the biggest marketer, the most successful marketer of soy sauce. It's a large company that comes from Japan.

They were hoping to be very successful in a very large food and beverage market — the United States. They entered the U.S. in the 1950s. They entered, as most Japanese firms do, from the West Coast in California. And they were selling soy sauce mostly to Asian grocery stores along the West Coast.

They sold very little volume, because, in the 1950s, Americans were not used to consuming soy sauce. It was a foreign product. It was an exotic product. You usually encountered it in a Chinese restaurant when you went to eat out. You used very little soy sauce in your food.

And they couldn't figure out how to make it more successful in America and how to sell more soy sauce. And then, the chairman of the company, visiting the U.S., studied the way that American consumers consumed food. And he said, "I learned something about the differences between the way that Americans eat food and Japanese eat food."

"Two main differences: One is that Americans don't eat a lot of sushi. In Japan, we eat a lot of sushi. And when we eat sushi, we dip a little piece of sushi in a little bit of soy sauce and we eat the sushi. The second major difference is, Americans eat a lot more meat, especially beef, than we do in Japan. Beef is much more expensive in Japan than it is in America."

So we sat down and we said, "You know, rather than trying to get American consumers to behave like Japanese consumers, why don't we change the way that we sell our products and make those products acceptable to American consumers?"

So we manufactured a barbecue marinade called "teriyaki" that was made for American consumers to dip their large pieces or to soak their large pieces of barbecue meat in and then they'd throw this marinade out. Our volume of soy sauce went through the roof.

So, you can just imagine, now — huge lesson here — rather than trying to get a consumer to change to your way of doing things, change your product to suit what the consumer wants to do, how they live their lives.

An easy way of thinking about this is, when you're thinking about marketing your product; think from the outside in, not from the inside out. Think from the customer in to your firm, rather than from your firm out to the customer.

How soy sauce captured the American market.

**Rohit Deshpandé**  
**Professor, Harvard Business School**

Rohit Deshpandé is Sebastian S. Kresge Professor of Marketing at Harvard Business School. He currently teaches in the Owner/President Management Program and has previously taught global branding, international marketing, and first-year marketing in the MBA program.

In addition to teaching marketing, Rohit was a part of the design and delivery team that created the Leadership and Corporate Accountability MBA required course at Harvard Business School, which focuses on ethics and corporate governance.

His primary research interest is the creation and implementation of customer-centric corporate culture. Rohit is a published author of several technical articles, cases, and monographs. His most recent books include "Developing a Market Orientation," "Using Market Knowledge," and "The Global Market: Managing the Challenges and Opportunities of Globalization."

Before coming to Harvard, he was the E. B. Osborn Professor of Marketing at the Amos Tuck School of Business Administration at Dartmouth College.

He received his Ph.D. from the University of Pittsburgh, and his Master of Business Administration from Northwestern University. He also earned his Master of Management Studies and Bachelor of Science from the University of Bombay.

## Match expectations

“ It takes months, even years to find a customer ... and only seconds to lose one. ”  
—Customer 101

Great companies remember that even target customers are *moving* targets—their expectations shift and evolve over time. Thus, service quality is not absolute, because it is determined by the customer, not by the service provider. And it varies from customer to customer. Consequently, excellent service quality firms are those that can adapt their products and services to meet and exceed changing customer expectations.

For example, an automobile manufacturer with an extremely high loyalty rate noticed that it was losing customers. They went to their defecting customers and asked why. The customers were happy with the quality of the cars, but they were beginning to have families and wanted bigger cars. Their expectations had changed. When the manufacturer responded by designing bigger cars, its efforts were rewarded by increased loyalty and sales.

## Key Idea: Lifetime value

### Key Idea

Once an organization targets its customers and begins to meet and exceed their expectations, customer satisfaction rises. Loyalty follows, bringing with it a significant and measurable impact on the bottom line.

In a recent study conducted across a wide range of service industries, experts found that relationships with typical customers grew increasingly more profitable over time in all cases—regardless of industry.

1. In year 0, customers are acquired. These acquisition costs must be recouped over the course of the relationship.
2. Early on in the relationship, purchase and profit levels tend to be low. But they create a foundation on which a longer-term customer relationship can be based.
3. Once he or she is familiar with a product or service, the customer is more likely to buy new products or services. The customer becomes less price-sensitive in making these purchases than with base product or service purchases. The profit level increases.
4. Having become knowledgeable about the company and its policies, the customer is less expensive to serve; therefore, costs are reduced. Further, the truly loyal customer becomes an "apostle," someone who eagerly recommends the company to others, generating new business and greatly increasing profitability.
5. The longer the customer relationship lasts, the more profitable it tends to become. In one study of service firms, extending the customer relationship from five years to six years resulted in a 25% to 85% increase in profitability.



Every customer has a potential lifetime value for your company. Smart managers consider how many sales they can make to a particular customer over the long term and how many referrals the customer might provide.

## Calculating customer lifetime value

Why don't companies pay more attention to their loyal customers? Because they don't appreciate how valuable they are. Calculating the lifetime value of your customers can be an eye-opening experience. It can also help you build top management's support for customer retention initiatives.

Lifetime value can be calculated for any customer in any industry. Let's assume a business-to-business example: a small graphic design studio that buys software from a vendor.

In year 1, the owner of the design studio sees a television ad for new desktop layout software and makes a purchase. In this first year, the vendor doesn't make any money on this customer because the costs of acquiring and serving the customer are greater than the purchase price of the software program.

In year 2, the customer, happy with the layout software, buys the upgrade (which has a higher profit margin) as well as a software program for drawing and illustrating. In addition, the studio owner refers the layout software to several independent graphic designers, one of whom buys the layout software.

In year 3, the design studio buys a program for manipulating images and a clip art library from the vendor. The first referral buys the drawing software and the layout software upgrade. Another referral purchases the layout software.

In year 4, the design studio purchases a new upgrade to the layout software and an upgrade to the drawing software. The first referral purchases image manipulation software and a clip art library. The second referral purchases the drawing software and the layout software upgrade. In addition, two new referrals purchase the basic layout software.

In year 5, the design studio buys new all-in-one software combining layout, illustration, and image manipulation capabilities and also a different clip art library. The first referral buys another upgrade to the layout software and an upgrade to the drawing software. The second referral buys image manipulation software and a clip art library. The two referrals from the past year each purchase the drawing software and the upgrade to the layout software.

The purchases made in years 1 through 5 by the design studio and its referrals are tabulated below. As you can see, the initial \$800 purchase in year 1 leads to an additional \$12,850 of business from all sources in years 2 through 5.

### Calculating Lifetime Value, Sample

	Year1	Year2	Year3	Year4	Year5



Revenue from basic goods and services	800	0	0	0	0
Revenue from new goods and services	0	500 250	500 200	250 250	3,000 200
Cost to (acquire and) serve	850	100	100	100	100
Referrals: Revenue from new loyal accounts	0	800	750 800	700 750 800 800	500 700 750 750
Profit (\$)	(-)50	1,450	2,150	3,450	5,800

## Activity: Compare lifetime values

The lifetime value of a customer works very differently from industry to industry. Show your understanding of the different shapes that lifetime value can take.

You will need this information to answer the questions about the three charts.

Chart 1 shows profit traceable to individual customer increasing along with the time of the customer relationship.

Chart 2 shows profit traceable to individual customer varying from year to year, with no discernible trend.

Chart 3 shows the highest profit traceable to individual customer at the beginning of the customer relationship. As time of customer relationship progresses, the profit traceable to the individual customer goes up and down, but never reaches the profit gained at the beginning of the relationship.

Which industry has a customer relationship like that depicted in Chart 1?

- ☐ An auto dealership

**Not the best choice.** This lifetime value curve represents a business that depends on long-term customer relations rather than individual sales; in the first year of business with the customer, there is little to no profit.

- ☐ A business-to-business software company

**Correct choice.** In many businesses, the initial sale of a product is offset by the sales and marketing costs needed to close that sale. But after you establish a positive relationship with the customer during the initial sale, that customer is more likely to buy related products and give referrals to your business. That's when your business starts to see real profit.

- ☐ An office furniture company

**Not the best choice.** This lifetime value curve represents a business that depends on long-term customer relations rather than individual sales; in the initial year of business with the customer, there is little to no profit. An office furniture company could not function on this model.

Which industry has a customer relationship like that depicted in Chart 2?

- ☐ An auto dealership

**Correct choice.** Major consumer products—cars, electronics, and appliances, for example—are businesses where there is considerable opportunity to build customer loyalty. These are major purchases that occur periodically, and they can be very stressful for the consumer. Giving the customer a good deal and reliable service means they will return for major purchases in the future and refer friends and family to you.

- ☐ A business-to-business software company

**Not the best choice.** This lifetime value curve represents a business where a loyal customer makes repeated purchases at intervals and makes recommendations to others, but does not have a consistently growing relationship with the vendor. Most business-to-business companies depend on such a growing relationship with their customers, since their marketing and sales costs are so high.

- ☐ An office furniture company

**Not the best choice.** This lifetime value curve represents a business where a loyal customer makes repeated purchases at intervals and makes recommendations to others. Office furniture companies do not depend as heavily on positive recommendations.

Which industry has a customer relationship like that depicted in Chart 3?

- ☐ An auto dealership

**Not the best choice.** This lifetime value curve represents a business where the customer may make repeated purchases over time, but there is no consistent relationship with the

vendor. Auto dealerships do depend, to some extent, on a relationship with the customer, who may refer friends or family to the dealer or return for maintenance services.

☐ A business-to-business software company

**Not the best choice.** This lifetime value curve represents a business where the customer may make repeated purchases over time, but there is no consistent relationship with the vendor. Business-to-business companies depend greatly on a strong relationship with their customers.

☐ An office furniture company

**Correct choice.** Not all purchases are made with a lot of thought and consideration. Sometimes, customers want a quick solution and, beyond finding a good price, don't want to spend much time thinking about it. In these situations, you might think that lifetime value isn't an issue. However, at the very least, repeat business is always a possibility.

## The service-profit chain

Research across a wide variety of industries confirms that profitability and growth are strongly related to variables such as:

- Employee capability
- Employee satisfaction
- Employee productivity
- Employees' ability to deliver good value to customers
- Customer satisfaction
- Customer loyalty

For example: Employee capability—built by hiring the right people, giving them training, support, latitude, and rewards—promotes employee job satisfaction. When employees enjoy their work and believe they are making a difference, they tend to stay longer and become more productive and knowledgeable. Such employee loyalty, in turn, creates greater customer satisfaction. After all, customers are more likely to be happy when they are being served by motivated employees who take the time to get to know their specific needs and circumstances. Not surprisingly, happy customers tend to buy more from the company and also to refer other customers to the company more frequently. Thus, customer satisfaction breeds customer loyalty. And there is a dramatic cause-and-effect relationship between customer loyalty and profitability: in some industries, a small percentage of a company's most valuable and loyal customers can account for more than half of total profitability.

## Go beyond frontline service



Many organizations understand the need for training frontline workers to be polite, empathetic, and knowledgeable. But great frontline service is simply not enough. Everyone in the company is responsible for delivering the results the customer wants.

For example, a major airline subcontracted a shuttle service to fly passengers from a hub to the smaller airports in the region. Frontline workers were polite, industrious, and efficient. Unfortunately, the planes were never on time, when they took off at all. Flights were canceled almost continuously. Passengers constantly arrived hours or even a day late, frequently missing important events and meetings. Eventually, the poorly run shuttle service lost its contract and went out of business.

Obviously, great frontline service is critical for success in any organization. But, as this story shows, capability cannot stop at the front line if the company is to be profitable. When capability is lacking anywhere, it compromises the company's ability to deliver what the customers want. In the case of the airline, that was reliable transportation.

As a manager, you have the power and responsibility to strengthen the first link in the service-profit chain: employee capability.

## Leadership Insight: A drop of water

So Pace was undergoing transformation. Previously, the company had become very internalized. We make very complex technology products where the systems and processes all were becoming more and more about ourselves and our own inefficiencies and inadequacies. And this had to be changed.

We needed to become a customer-centric organization. A lot of companies pay lip service to that, and they feel they should say those things. But we did it in a very dramatic way.

I stood up in front of the whole company and on the back of the screen behind me I had a simple picture of a drop of water falling into still water and concentric rings all coming out from it.

Now bear in mind that the audience I'm talking to is a bunch of cynical, hard engineers who live in their designs and what they do, and the last thing they think about is the customer. I needed them to understand how important that is. So this picture signified the customer was the drop of water. And the concentric rings would be: from then onward, all the systems and processes — the very structure and culture of the company — was going to change to put the customer at the heart of our business.

Because I know if you launch a phrase like that, everybody gives a big yawn and says they've heard it all before. But we need the company to understand that we were embarking on a radical change in how we operate from then onward. And so to meet the customers' requirements, we were going to join people much closer to the market and the customer, so they could hear what the customer was saying. So we created small, nimble, agile teams with everything they needed to serve the customer.

And that produced, then, a direct connection to the market. That engaged those engineers and those commercial people directly in what was going on in the market, to produce the types of products our customers would need.

That eliminated a lot of bureaucracy in decision making that just got in the way and, for real, put the customer at the heart of the business.

And as the ripples went out, that fed through from the design of the product to how we bought components, where we manufactured, and how we manufactured. This produced a dramatic increase: just within three years, the company went from a market capitalization of \$100 million to \$1.1 billion.

By engaging your employees with customers, your organization can better serve their needs.

### **Neil Gaydon**

#### **Chief Executive Officer, Pace Plc.**

Neil Gaydon is Chief Executive Officer at Pace Plc., one of the world's leading developers of digital television technology for the pay TV industry. Pace is the world leader in high-definition set-top box technology and a key player in the move toward technology convergence for entertainment throughout the home.

Neil joined Pace's board of directors in 2002 and was appointed CEO in 2006. In 2008 he led the company through the acquisition of Royal Philips Electronics, a set-top box business, doubling the company's size. During his time at Pace, Neil also served as Director of Worldwide Sales and Marketing and President of Pace Americas, establishing the group's U.S. operations.

Prior to working at Pace, Neil spent over 12 years as a Senior Executive in the hi-fi industry. He is also active in the local community as a board member of the Bradford City of Film.

## **The cycle of mediocrity**

“ Right now, everybody is trying to sprinkle a little fairy dust on the customer service issue and hope things get better. ”

–Frederick Reichheld

Low employee job satisfaction and high employee turnover can create a downward spiral that causes sales and profits to plummet.

For example, low employee job satisfaction can lead to a poor service attitude, which in turn can lead to low customer satisfaction.

Similarly, high employee turnover can disrupt continuity with customers; the resulting customer defection has an adverse effect on profits. Moreover, lower profits adversely affect training and job expectations. The consequence—low job satisfaction—starts the cycle of mediocrity over again.

## The high cost of turnover

Research suggests that employees place a high value in their jobs on *capability*—which can be translated roughly as the latitude and ability to deliver results to both internal and external customers. High perceived capability can, in turn, lead to reductions in the rate of employee turnover.

Successful organizations have lower employee turnover than their competitors. Even firms that have relied upon high employee turnover—for example, fast-food chains, which have tended to hire low-skilled employees at minimal wages and provide them with minimal training—are beginning to understand that satisfied, long-term employees help build customer loyalty and satisfaction and cost less to manage. As a consequence, these companies are starting to question their traditional assumptions.

The visible costs of bad hires and high employee turnover show up in related costs, such as:

- Additional recruiting and training expenses
- Lower productivity on the part of co-workers and managers

A broad range of hidden costs can be equally damaging. High employee turnover can have a negative impact on:

- The morale of other employees
- The quality of service provided
- Customer retention
- Productivity and profitability

Use the information you generate from calculating the cost of employee turnover in your own organization to help convince colleagues that it makes economic sense to hire, train, support, and reward loyal employees.

## The cycle of success

Most managers sincerely want to make changes that would "turn things around," but good intentions often fall by the wayside due to the pressure for short-term performance. How can a cycle of mediocrity be turned into a cycle of success? You can create the cycle of success by starting at the beginning.

## Select for attitude, train for skills

Skills can be taught, but it's difficult to train someone to have the right attitude. The most successful service organizations hire first for attitude and only secondly for skills. They train new hires in the skills

they need for their jobs.

Everyone in the organization needs to have a customer-focused attitude. No one should be exempt, not even workers who spend little or no time in front of customers.

For example, a talented but egomaniacal software programmer can delay product releases and make life truly miserable for teammates. If the programmer's attitude problems go unchecked, delays will continue, and the most highly skilled co-workers will find jobs with a competitor.

## Invest in training

Make sure that new employees receive training in the skills and tools they need to perform their jobs well. Training should include an appropriate mix of interpersonal and technical skills. Training in interpersonal skills is not only important for employees who spend a great deal of time interacting with external customers; effective people skills are also required for serving internal customers—others within an organization—and for performing on a team.

Training takes time and money. Organizations that invest in employee development find there are payoffs in terms of reduced employee turnover, improved service quality, and increased productivity. The result is increased customer satisfaction and loyalty.

## Provide tools and support

Once you have hired winners, you must give them the chance to "win" on their jobs. When you provide your employees with the tools and support they need, they will perform better and feel better about their jobs. The payoff is increased employee loyalty, which translates into increased customer loyalty as well.

Without adequate support systems, even the best hires cannot provide the results and service that they want to give customers. Well-designed support systems, such as technology, information systems, workplace design, and service facilities, all contribute to employee capability.

## Allow latitude within limits

Micromanagement is demeaning and frustrating to capable employees. They resent being treated as incompetent, and they become dissatisfied with their work. Their productivity declines. The most valuable employees will find work somewhere else.

Once you've hired the right people, trained them to make sure they have the right skills, and provided them with effective support, give them expanded latitude to deliver value to customers. Latitude gives these employees the power and responsibility to make quick decisions and to recover decisively from mistakes. An organization benefits from capable employees' judgment and decision-making capabilities.

But latitude must be accompanied by limits. Determining the right latitude and limits depends on the circumstances. Greater employee latitude is especially beneficial in jobs that are difficult to supervise—or jobs that require a great deal of interaction combined with a need for quick service recovery.

## Reward for results



“All other things being equal, the best people will stay with the company that pays them the most. Loyalty leaders know this, and they share their "loyalty surplus" with employees as well as stockholders.”  
–Frederick Reichheld



Recognize and reward your people for their ongoing contributions to service. Tie rewards directly to goals. Rewards should reflect the culture and values of your organization and should take into account what motivates your employees.

While it may be easier to measure and evaluate effort, remember that your objective is to deliver results to customers. Reward employees who achieve results rather than merely make an effort.

## Communication is key



The relationship between the loyal customer and the successful organization is a dynamic, ongoing process based on constant two-way communication and responsiveness.

The difference between average and excellent organizations is how effectively management generates feedback, listens to it, communicates the information internally, and acts on it. Instead of "telling" through constant advertising and hard-sell pitches, companies must focus on "listening." Every organization already has built-in mechanisms for getting feedback, but they are not necessarily used well.

## Get customer feedback

“All the smiles in the world aren't going to help you if your product or service is not what the customer wants.”  
–Carl Sewell and Paul Brown

The successful company is the one that meets and exceeds the expectations of its target customers. To accomplish this, it listens continually to its target customers to find out what products and services they want to meet their needs, and the way in which they want the products or services delivered. But customers are moving targets—their expectations are constantly changing. For this reason, organizations need as many opportunities to hear and respond to customer feedback as they can find. Every organization has *listening posts*, places where employees hear customer feedback. Organizations can create both formal and informal ways to find out how they're doing.

## Leadership Insight: A wedge of lime

There's an interesting thing about Corona beer that a lot of people don't know about. A lot of people realize that Corona uses, in their advertising and, in fact, the way the beer is served, they use a wedge of lime in the bottle. Now, here's the story. It turns out that when this was initially being done, it was being done by people, consumers, who were consuming and drinking the beer. The people at Corona, the company — actually a Mexican company called Grupo Modelo — didn't like this.

And the reason they didn't like this is because they recycle their bottles. And this meant that every time there was a wedge in a bottle, it had to be taken out when the bottle had to be cleaned, to be reused. So they tried to initially discourage this.

And then they realized that consumers really like this ritual of putting the lime in the bottle. Since then, it's become part of the way that Corona beer gets marketed, to the point that they put it in all of their advertising.

To me, this is a wonderful example of how you learn from your customers, from your consumers, what's important to them. See, a lot of brands don't understand that a brand is more than just a logo, it's a relationship with a customer. And the customer co-creates this relationship with all kinds of rituals — in this particular case, something as simple as a wedge of lime in the bottle.

That today has made Corona beer iconic. When you see a clear glass bottle of beer with a wedge of lime, you almost don't have to see the brand name on it, you know that it's Corona.

So, great example of how you can use a consumer ritual as part of your brand, a ritual that the consumer has initiated.

When companies embrace consumer rituals as part of their brand, the customer relationship thrives.

### **Rohit Deshpandé** **Professor, Harvard Business School**

Rohit Deshpandé is Sebastian S. Kresge Professor of Marketing at Harvard Business School. He currently teaches in the Owner/President Management Program and has previously taught global branding, international marketing, and first-year marketing in the MBA program.

In addition to teaching marketing, Rohit was a part of the design and delivery team that created the Leadership and Corporate Accountability MBA required course at Harvard Business School, which focuses on

ethics and corporate governance. His primary research interest is the creation and implementation of customer-centric corporate culture.

Rohit is a published author of several technical articles, cases, and monographs. His most recent books include "Developing a Market Orientation," "Using Market Knowledge," and "The Global Market: Managing the Challenges and Opportunities of Globalization."

Before coming to Harvard, he was the E. B. Osborn Professor of Marketing at the Amos Tuck School of Business Administration at Dartmouth College. He received his Ph.D. from the University of Pittsburgh, and his Master of Business Administration from Northwestern University. He also earned his Master of Management Studies and Bachelor of Science from the University of Bombay.

## Tools for getting feedback

All tools that measure feedback are best used in an atmosphere of trust. They should be used to gather useful information as a way to improve products and services, not as weapons or methods for assigning blame or punishing people. And all tools should measure both positive and negative feedback.

Listening posts include:

- **Web sites.** Your company's Web site offers an excellent arena for obtaining customer feedback quickly and easily. Make the most of e-mail functionality by soliciting general feedback prominently on your site and posting e-mail addresses for designated contact people. Scan bulletin boards either on your site or look at those of competitors to find out what people are saying about your products or services.
- **Audits.** Audits take many forms. Perhaps the most popular among them is "mystery shopping." Mystery shopping may consist of actual visits to retail or other business sites, calls to customer service providers, or the actual consumption of either products or services. It is thought to offer a high degree of objectivity, although employees can regard it as unfair or even as "spying," if not evenly conducted to identify ways in which efforts can be improved.
- **Market research.** Many large corporations hire market research firms to do extensive studies that explore demographics, lifestyles, buying habits, preferences, and buying patterns. Small businesses may not be able to commission such extensive studies, but they can get data from the Small Business Administration.
- **Focus groups.** There are many kinds of focus groups, from small, informal meetings to elaborate, carefully orchestrated sessions. An informal group of customers from a target market can help a company testing an initial product idea, design, or concept. As the product develops, the company may begin to conduct more geographically expansive, professionally organized focus groups. Focus groups are excellent for testing products and services, but the focus group phenomenon can send an unfocused company into disarray as it becomes unable to think clearly in the face of often contradictory results.
- **The ordering process.** One of the most overlooked listening posts is the ordering process. Whether an order is taken in person, over the phone, or on the Web, valuable information can be obtained from customers by asking the right questions and listening carefully at this contact point.
- **Satisfaction cards.** Most service industries give customers a chance to fill out guest satisfaction cards. Today, they're prevalent in industries like food and lodging, health care, and automotive care.

- **Surveys.** A well-designed survey can help you determine what you are doing to deliver the greatest satisfaction, or lack of it. More elaborate than a satisfaction card, a survey measures many areas of satisfaction. Sometimes a written survey is followed up with a phone interview. Information gathered from surveys can be used to replicate the most successful strategies and solve the problem areas.
- **The customer service process.** Complaints that arise in the course of serving a customer should be carefully studied and responded to promptly. At one successful hotel chain, when a customer complains, it is noted on a Guest Incident Form and entered that day into a database so that other hotel personnel can be notified. This helps employees know that the guest may need special attention.
- **Follow-up satisfaction calls.** Recently, many organizations have established a follow-up satisfaction call as another listening post in their customer relationships. More elaborate than a card, but less involved than a comprehensive survey, the follow-up call is a personal, brief phone call that takes place shortly after a transaction. A representative calls the customer to make sure that everything is okay and ask a few, simple questions about their products and services.

The well-trained representative can spot service recovery problems before they begin, and can reveal more general information about what the target customer values or does not value.

For example, a major optical company calls customers about a week after they buy a pair of glasses. They check to make sure that the glasses fit properly, and invite the customer in for a follow-up fitting. At that time, representatives also ask a few other, brief questions that measure satisfaction. This "extra" service distinguishes this optical company from its competitors, and helps ensure repeat business.

Follow-up calls are also excellent marketing tools, establishing a feeling of trust between the company and the customer. A follow-up satisfaction call should be a sincere effort to ask about and provide service. It should not be used to "sell." If the caller uses a satisfaction call as a trick to "push" products, the customer will become annoyed.

## Activity: Pick the right tool

Different situations require different tools for gathering customer feedback. Choose the best tool for the given situation.

Different situations require different tools for gathering customer feedback. Choose the best tool for the given situation.

Your company has recently released a new line of digital cameras. The cameras sell very well at launch. However, three months after the product launch, you begin to receive reports that many customers are returning their cameras for a refund. Which tool would best help you gather feedback you need to explain these returns?

- ☐ Set up a bulletin board for customer feedback on your company's Web site  
**Not the best choice.** Bulletin boards on company Web sites are helpful for gathering feedback. However, you can't be sure that customers who are returning their cameras will take time to seek out your Web site to post their complaints. You need a more proactive approach that will ensure you get the feedback you need.
- ☐ Put together a focus group of customers who will discuss their problems with the camera

**Not the best choice.** Focus groups are frequently used to test initial reactions to a product idea, design, or concept. In this situation, you need to investigate why customers are returning a particular product after they have used the product for a period of time.

- ☐ Gather information during the customer service process

**Correct choice.** By asking the right questions during the customer service and return processes, you can find out in what ways the product has fallen short of customers' expectations. Create a brief survey form to be completed during the return process. You might also ask some customers if they are willing to participate in an in-depth, paid, follow-up interview.

You are the regional manager of a chain of department stores. Your company has just opened a new branch location. You want to make sure that employees at the new branch are following established customer service procedures. How could you best find out?

- ☐ Invite customers to fill out a quick survey attached to their receipts, asking them to rate their level of satisfaction with their shopping experience. Offer a random drawing for a \$50 gift certificate as an incentive for completing the survey.

**Not the best choice.** While the incentive might persuade some customers to complete the survey, a quick survey asking them to rate the quality of their shopping experience won't likely generate sufficiently detailed information about how well the branch employees are following established customer service procedures.

- ☐ Send some "mystery shoppers" to the new location to report back on how well procedure is being followed

**Correct choice.** A group of "mystery shoppers," carefully instructed on what to look for, should be able to objectively assess whether the branch's employees are following established customer service procedures.

- ☐ Place follow-up satisfaction calls with a random sampling of customers to ask questions about the store's quality of service

**Not the best choice.** Follow-up satisfaction calls should be used not only to gather information but also to provide service. By calling simply to ask questions without providing any value in return for that information, you may end up annoying customers instead of getting the data you need.

You work for a large, successful automobile company. You are planning to roll out a new line of compact sport-utility vehicles designed to appeal to young professionals in their 20s. You want to determine what price point would be appropriate for these cars. Which tool would enable you to gather the most useful information?

- ☐ Set up a forum on your company's Web site where prospective car buyers can discuss numerous aspects of buying and owning automobiles, including pricing

**Not the best choice.** Though this tool may get you some information on customers' opinions about car prices, the data you gather will not necessarily come from people in your target demographic for this particular vehicle.

- ☐ Assemble a focus group comprised of individuals from this target demographic  
**Not the best choice.** While a focus group may help you gather some opinions on pricing from your target demographic, the data you collect will not necessarily represent the price that these individuals would actually be willing to pay for a compact sport-utility vehicle.
- ☐ Hire a market research firm  
**Correct choice.** A market research firm can collect large volumes of data on your target demographic's buying patterns and rigorously analyze that data. By using this tool, you could find out what young professionals in their 20s are currently spending on compact sport-utility vehicles in different regions of the country.

## Leadership Insight: Word of mouth

One of the things we are learning in the media is that the change that we're going through right now is something that is going to extend itself beyond media companies. One of the key elements we're learning in the media is that we have to pay more attention to the consumer.

The consumer has got much, much more control of the relationship than they used to and that's really going to be true in almost every business from now on. And that's one of the things digital platforms do; they match buyers with sellers — it's the reason eBay works so well, or Amazon.

You can find something you're looking for in a much easier way than you used to be able to. Any company has to worry about the fact that consumers can find information wherever they want and has to understand what that consumer wants and go after the consumer, and build a relationship with the consumer to keep them, to make them understand why they should stay with their product.

So a great example of that is a company called "Nespresso." They built a business where, 15 years ago when they started to build this business, you had to buy the coffee directly from them. They treasured that and they stayed after the consumer, wanted the consumer to have a good experience.

So the consumer would call in and order the coffee by phone, even though they could get the machine at any number of stores. This phone call was the first connection the company would have one-on-one with the customer and they encouraged customers to call in and to order. And they would do what they could to get them all their canisters. But they used the opportunity to speak to them.

An interesting thing happened: the Web came along and they also opened up some stores — they could have personal contact in stores. They actually built a Web site where you could order the coffee from. And a huge percentage of people moved to the Web to order the coffee. The interesting thing was they didn't stop calling though. They liked the calling experience so much that, even though they weren't buying from the phone bank, they were actually calling and asking questions about the coffee and doing stuff.



And the company, instead of cutting back on the call center and firing people and laying them off or trying to shorten the length of calls, went the other way. Invested more in it, added more people, and created what is an old fashioned social network, but the ultimate social network.

You're actually talking to your consumers and customers and learn so much on a continuing basis that they encouraged their people, on the phone, to stay on the phone with customers — to talk to them more, to chat them up about new coffees that are coming and to explain how the company does everything it does.

And the business has grown dramatically. They're extremely happy with it. They have more and more customers every month. They've cut way back on traditional advertising. They believe word of mouth is what matters in that business and that social networking and all of the things that are at the heart of a consumer relationship are the heart of their business.

Adapt your service strategy to the unique needs of your consumer. In the case of Nespresso, phone conversations provided the personal touch that their customers craved.

### **Larry Kramer** **Former President, CBS Digital Media**

Larry Kramer is an adjunct professor of Media Management at the Newhouse School of Public Communications at Syracuse University.

From 2008-2010, he was Senior Advisor at Polaris Venture Partners, a national venture capital firm with over \$3 billion under management that invests in seed, early-stage, and growth equity businesses.

He was President of CBS Digital Media in 2005 and 2006, and served as an adviser to CBS during 2007. During the decade prior to joining CBS, Larry was also the CEO and founder of MarketWatch, Inc., which he took public in 1999.

He has more than 20 years of experience as a reporter and editor at The Washington Post, where he rose to Assistant Managing Editor, and the San Francisco Examiner, where he served as Executive Editor.

Larry is the recipient of several awards for reporting, including the National Press Club Award and the Gerald Loeb award for business reporting. He has been a guest lecturer at various universities, including Harvard Business School and University of Pennsylvania, and served a two-year term as a judge for the Pulitzer Prizes.

Larry holds an MBA from Harvard University and a bachelor's degree in journalism and political science from Syracuse University.

## **Observing the customer**

There is no substitute for watching your customers while they are using your product or service. Get out into the field with qualified observers, and see how your customers use your product in real life. You'll find out what they like, what they don't like, and ways that they would improve your product or service. You'll be surprised to hear things you never even thought of.



For example, at a major photocopying company, observers in the field found that copy machines were usually placed in storerooms. People frequently stood on the machine to reach the highest shelves. Knowing this, product designers created a copy machine strong enough to support a person's weight.

When you go into the field, bring along observers with different backgrounds and skills. Different perspectives can provide valuable information.

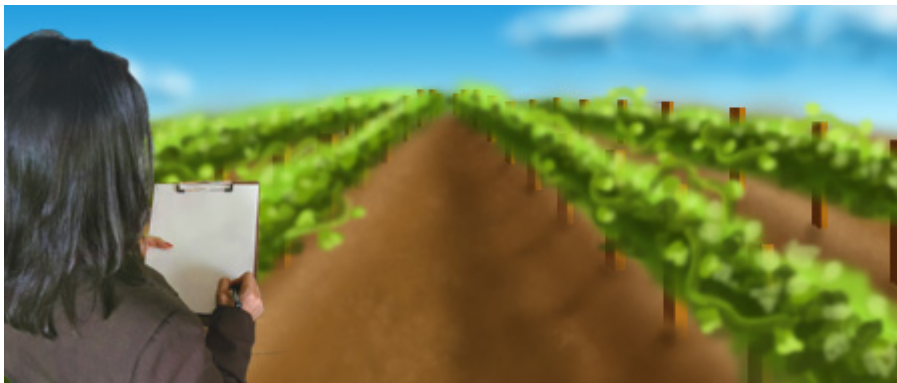
## Customer Value Equation

What is value? Think about your own experience as a customer—how do you determine what is most important to you? Did you get the results you expected? Were the results delivered the way you wanted them? Did the supplier make it convenient for you to acquire the product or service you wanted? Was the price what you were hoping for?

A calculation known as the Customer Value Equation factors in all these considerations to arrive at a measure of customer value. But before we look at the calculation itself, let's examine each factor that goes into it in greater detail.

- **Results.** Customers buy results. They don't buy products and services. A customer buys a prescription to deal with an ailment. The result is a cure. A customer fills the car with gas. The result is transportation. The customer buys a dinner at a fancy restaurant. The result is a pleasant evening of fine dining and entertainment.
- **Process quality.** The process quality is the way the product or service is delivered. Process quality is a combination of such factors as dependability, timeliness, and a professional attitude on the part of any representatives of the company.
- **Price and access costs.** Price is only one factor in the ultimate cost of the product or service to the customer. When customers consider price, they also add in the access costs. A cheaper product that requires the customer to drive 60 miles to obtain it may not be worth the price. The added cost of overnight delivery may be well worth it to a customer, who may willingly pay extra for the added convenience.

## Develop satisfaction goals for profitable customers



You've listened to the customer. You understand what the customer wants and expects. You know what the customer values. Now you have enough information to develop Satisfaction Goals. In addition to sources you have already developed, consider using:

- Service criteria
- Informal polls of employees who deal with customers
- Informal polls of customers
- Informal polls of supervisors
- Experience and judgment
- Common sense (often overlooked)

### Developing Satisfaction Goals—Examples

Target Area	Sample Goal
Style of interaction	We will treat every customer with respect.
Timing	We will respond to every customer within five minutes.
Attitude	We will explain our product features and functions in the language of the customer, not in the language of our organization.
Communication	We will end every interaction with a customer by asking if there is anything else we can do.
Policies and Procedures	We will increase the amount of petty cash available. Internal customers will no longer have to pay for their own expenses and then be reimbursed.
Employee Latitude	Following company guidelines, employees will be able to authorize checks without the approval of a manager.
Customer	Over the next year, we will

Retention	increase retention of profitable customers from our current rate of 50% to 65%.
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Goals should consist of factors that influence the satisfaction of your profitable customers. Remember, some people will only be satisfied with a product or service that costs them less than what it costs you to produce. Obviously, those are not customers that it will be profitable to please.

## Activity: Set the right goal

Setting customer satisfaction goals requires you to identify target areas where your team or company needs to improve.

Match each of the following customer satisfaction goals to its respective target area.

1. Allow employees to accept product returns without managerial approval

- ☐ Employee latitude

**Correct choice.** This is an expansion of the employee's latitude to make decisions to please customers. Increasing employee latitude means putting a lot of trust in your direct reports, but it pays off when these employees can respond freely to customers' needs.

- ☐ Style of interaction

**Not the best choice.** This would grant employees greater freedom in dealing with customers, which goes beyond style of interaction.

- ☐ Policies and procedures

**Not the best choice.** This pertains to the freedom employees have in dealing with customers, which is a special target area separate from policies and procedures.

- ☐ Timing

**Not the best choice.** This does not pertain to the timing of customer service.

- ☐ Customer retention

**Not the best choice.** This is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This *does* pertain to customer satisfaction.

2. Never have a customer wait for help for more than 2 minutes

- ☐ Employee latitude

**Not the best choice.** This actually does not increase or decrease employees' latitude in dealing with customers.

- ☐ Style of interaction

**Not the best choice.** This changes the timing of employees' interactions with customers, but not their style.

- ☐ Policies and procedures

**Not the best choice.** This pertains to the timing of customer service, which is a special target area separate from policies and procedures.

- ☐ Timing

**Correct choice.** This improves the timing of responses to customer needs. Often, you'll find that customers are willing to forgive any number of problems or difficulties so long as they see that their concerns are being addressed promptly.

- ☐ Customer retention

**Not the best choice.** This is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This *does* pertain to customer satisfaction.

### 3. Offer a new range of financing options for large appliance purchases

- ☐ Employee latitude

**Not the best choice.** This offers customers more options, but does not change employees' latitudes to create new options for customers.

- ☐ Style of interaction

**Not the best choice.** This changes actual policy, not just the style of employees' interactions with customers.

- ☐ Policies and procedures

**Correct choice.** This involves an actual change in policy. Setting customer-friendly policies and procedures is just as important as ensuring that your employees treat customers with the right attitude.

- ☐ Timing

**Not the best choice.** This does not relate to the timing of interactions with the customer.

- ☐ Customer retention

**Not the best choice.** This is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This *does* pertain to customer satisfaction.

### 4. Conduct business with customers cordially and professionally

- ☐ Employee latitude

**Not the best choice.** This does not change the amount of latitude employees have in dealing with customers.

- ☐ Style of interaction

**Correct choice.** This pertains to style of interaction. Your direct reports' style of interaction, or general demeanor when facing the customer, should make the customer feel welcome and mesh with your company's overall style and image.

- ☐ Policies and procedures

**Not the best choice.** This has to do with style of interaction, which is different from official policy or procedure.

- ☐ Timing

**Not the best choice.** This does not pertain to the timing of interactions with customers.

- ☐ Customer retention

**Not the best choice.** This goal is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This goal *does* pertain to customer satisfaction.

5. See that every new customer makes return purchases at least twice a year

- ☐ Employee latitude

**Not the best choice.** This is a specific customer retention goal, although granting employees more latitude in their interactions with customers might help to achieve it.

- ☐ Style of interaction

**Not the best choice.** This is a specific customer retention goal, although improving your employees' style of interacting with customers might help to achieve it.

- ☐ Policies and procedures

**Not the best choice.** This is a specific customer retention goal, although changing certain policies and procedures might help to achieve it.

- ☐ Timing

**Not the best choice.** This is a specific customer retention goal, although improving the timing of customer interactions might help to achieve it.

- ☐ Customer retention

**Correct choice.** This is a specific retention goal. Improving customer service is important, but it can be difficult to measure results. Setting specific customer retention goals allows you to see how effective your customer service really is.

- ☐ Not a satisfaction goal

**Not the best choice.** This *does* pertain to customer satisfaction.

6. Allow customers to return merchandise to any of your business's locations, not just the store where they bought it

- ☐ Employee latitude

**Not the best choice.** This does not change the amount of latitude employees have in dealing with customers.

- ☐ Style of interaction

**Not the best choice.** This changes actual policy, not just the style of employees' interactions with customers.

- ☐ Policies and procedures

**Correct choice.** This involves an actual change in policy. Setting customer-friendly policies and procedures is just as important as ensuring that your employees treat customers with the right attitude.

- ☐ Timing

**Not the best choice.** This does not change the timing of your responses to customers.

- ☐ Customer retention

**Not the best choice.** This is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This *does* pertain to customer satisfaction.

7. Increase overall sales by 10%

- ☐ Employee latitude

**Not the best choice.** This is a goal pertaining to total sales; it says nothing about employee latitude.

- ☐ Style of interaction

**Not the best choice.** This is a goal pertaining to total sales; it says nothing about style of interaction.

- ☐ Policies and procedures

**Not the best choice.** This is a goal pertaining to total sales; it says nothing about policies or procedures.

- ☐ Timing

**Not the best choice.** This is a goal pertaining to total sales; it says nothing about the timing of customer service responses.

- ☐ Customer retention

**Not the best choice.** This goal pertains to overall sales but says nothing about retaining current customers.

- ☐ Not a satisfaction goal

**Correct choice.** This is not specifically a customer satisfaction goal. Increasing overall sales does not necessarily mean that individual customers are more satisfied.

8. Re-record audio for the company's automated customer service line in a friendlier voice

☐ Employee latitude

**Not the best choice.** This does not change the latitude employees have in dealing with customers.

☐ Style of interaction

**Correct choice.** This pertains to style of interaction. The goal, in this case, is to create a friendlier corporate image.

☐ Policies and procedures

**Not the best choice.** This does not involve any change in policy or procedure.

☐ Timing

**Not the best choice.** This does not change the timing of customer service responses.

☐ Customer retention

**Not the best choice.** This goal is meant to increase customer satisfaction, but it does not set a specific target for retention.

☐ Not a satisfaction goal

**Not the best choice.** This goal *does* pertain to customer satisfaction.

9. Increase the percent discounts that employees may offer customers at their discretion

☐ Employee latitude

**Correct choice.** This goal is an expansion of the employee's latitude to make decisions to please customers. Increasing employee latitude means putting a lot of trust in your direct reports, but it pays off when these employees can respond freely to customers' needs.

☐ Style of interaction

**Not the best choice.** This goal would grant employees greater freedom in dealing with customers, which goes beyond style of interaction.

☐ Policies and procedures

**Not the best choice.** This goal pertains to the freedom employees have in dealing with customers, which is a special target area separate from policies and procedures.

☐ Timing

**Not the best choice.** This goal does not pertain to the timing of customer service.

☐ Customer retention

**Not the best choice.** This goal is meant to increase customer satisfaction, but it does not set a specific target for retention.



- ☐ Not a satisfaction goal

**Not the best choice.** This goal *does* pertain to customer satisfaction.

#### 10. Respond to all customer e-mails within 24 hours

- ☐ Employee latitude

**Not the best choice.** This goal actually does not increase or decrease employees' latitude in dealing with customers.

- ☐ Style of interaction

**Not the best choice.** This goal changes the timing of employees' interactions with customers, but not their style.

- ☐ Policies and procedures

**Not the best choice.** This goal pertains to the timing of customer service, which is a special target area separate from policies and procedures.

- ☐ Timing

**Correct choice.** This goal improves the timing of responses to customer needs. Often, you'll find that customers are willing to forgive any number of problems or difficulties so long as they see that their concerns are being addressed promptly.

- ☐ Customer retention

**Not the best choice.** This goal is meant to increase customer satisfaction, but it does not set a specific target for retention.

- ☐ Not a satisfaction goal

**Not the best choice.** This goal *does* pertain to customer satisfaction.

## Key Idea: Set customer-friendly processes

Many problems that arise in serving customers are the result of clumsy processes.

For example, hidden costs or deadlines hinder the delivery of the service. Customers wait too long on the phone for help. A billing process is complicated and confusing.

Research has shown that there are five generic influences of service process quality that can negatively affect customers:

- **Dependability** (Did the service provider do what he said he would do?)
- **Responsiveness** (Was the service provided in a timely manner?)
- **Authority** (Did the service provider help the customer feel confident about the service delivery process?)

- **Empathy** (Did the service provider demonstrate the ability to see things from the customer's perspective?)
- **Tangible evidence** that a service has been provided.

Keep these in mind when problems arise. Chances are the problems will be linked to one or more of the generic influences. To identify process problems, begin by mapping out every step of the process. Examine each step by asking what the purpose of the step is and how it adds value to the service or product. Explore the source of each problem step.

If customers aren't satisfied, it doesn't necessarily mean they received bad service. In fact, the best customer service in the world won't help if your business processes aren't designed to be customer-friendly.

## Leadership Insight: The Ritz

I was standing outside room 1036 of the Ritz-Carlton, just off the Boston Common, equipped with a room service cart with a light meal for two on it, with my trainer, Steve Posner.

I was training for a week to become a room service waiter at the Ritz for the purposes of a Harvard Business Review article I was writing, and was trying to learn how the Ritz achieves what might be called "extreme customer service" on the part of its employees.

I raised my hand to the door, going over the script in my head, pretty frightened as it turned out. I knocked on the door and said, "Good evening, in-room dining." I walked in with my cart, pushing rather than pulling it so that it kind of jiggled and tinkled and almost tipped over as I went into the room, and asked the woman in the room if I could open the bottle of water for her and help her in any way set up her meal.

And then she said, "That would be fine, if you'd like to," and then basically I stood there, hands behind my back, kind of slack-jawed and desperately trying to remember what I was supposed to do next.

Suddenly I remembered, "A-ha! Explain to them what they're receiving tonight." So I lifted off the warming tray and said, "You have a cheeseburger medium rare and a salad and beer and water." And then I stood there again.

Meanwhile my trainer, having basically given up on my ever opening the bottle of water, went over and did just that, and tried to smooth things over for me as we left the room. As we headed down in the elevator, he said, "We've got a little more training to take care of."

This was kind of my maiden voyage as a room service waiter at the Ritz, but the purpose of my going through the training and the process was really to try to find out what makes that hotel chain so successful in providing service to its customers.

They have a lot of rules, they have a very extensive training program, which they offer actually to other companies trying to offer top notch customer service. But my strongest takeaway from the week I spent learning to be a room service waiter was that empathy may be the most important aspect of providing extreme customer service.

The problem with my first trip into that room was I was thinking all about myself and not about my customer, my guest in that hotel. And the challenge over the course of my week was to get outside my own head and to get inside the heads of the people I was serving.

There was one instance where my trainer, Steve, did a wonderful thing. We were taking some champagne and pastries up to a room of a newlywed couple who would be arriving in a couple of hours. He not only was very careful in putting the rose petals around the champagne glasses, crossing the spoon — there was a lot of care given — but he was also at that very moment thinking about his own grandparents' wedding.

And he told me as we were doing this, he said, "On my grandparents' 75th anniversary, they showed pictures of their wedding. And while the pictures were old and kind of funny and from long ago, it meant something to them. And I want this experience to be meaningful to these people as well."

Empathy, getting inside the heads of the people you're trying to serve, was my strongest lesson I had from that experience as a room service waiter.

First-class customer service is all about empathy for the customer.

### **Paul Hemp**

#### **Contributing Editor, Harvard Business Review Group**

Paul Hemp is a contributing editor at Harvard Business Review, where he has edited and written articles on a variety of topics, contributed to the HBR Editors' Blog, and interviewed executives and authors for the Harvard Business IdeaCast.

His own articles for HBR include such trend-defining pieces as "My Week as a Room Service Waiter at the Ritz," "Presenteeism: At Work — But Out of It," and "Avatar-Based Marketing."

He has appeared as a commentator on CNN, CNBC, NPR, and the BBC and as a panelist at such conferences as the Yale CEO Leadership Summit and the SXSW Interactive Festival.

Previously, he was the director of publications at Mercer Management Consulting in Boston, a writer and editor at The Boston Globe, and a reporter at The Wall Street Journal in London and Brussels.

He is a graduate of Whitman College and Harvard Law School.

## **Improve service recovery**



One of the most important processes in any organization is that of service recovery following a mistake. Research shows that recovering from mistakes can actually increase customer loyalty and contribute to profitability. Customers who experience creative service recovery tell others more often than those who experience routinely good service the first time. Satisfied customers are more likely than others to give feedback about problems and voice complaints directly to the company. Use and share the valuable information collected during service recovery to redesign and improve your products and services.

Look for ways your group can provide its customers with fast, personalized service recovery—and get it right the second time. Successful service companies recover quickly, and they learn from their mistakes.

As part of this service recovery process, employees *must* be given latitude to solve problems. Without proper latitude, an organization cannot execute recovery procedures effectively.

## The satisfaction and profit disconnect

“Customer satisfaction is not a surrogate for customer retention. While it may seem intuitive that increasing customer satisfaction will increase retention and therefore profits, the facts are contrary. Between 65% and 85% of customers who defect say they were satisfied or very satisfied with their former supplier.”

—Frederick Reichheld

Questions asked at listening posts must be designed to find out whether products and services bought by satisfied customers are continuing to meet their needs.

Should existing products be adapted to respond to new needs? Should new services be added to respond to changing lifestyles?

For example, when a leading provider of baked goods saw sales begin to level off, they decided to find out why. By asking questions, they learned that most loyal customers were growing older, and becoming more concerned about fat and cholesterol in their diets. These customers were not dissatisfied with the company's products or delivery. They stopped buying the company's baked goods because the product line did not meet their needs anymore. They discovered that if the firm offered low-fat products, the loyal customers would be happy to buy them. By listening to their most loyal customers, the company determined that they should offer new products, which have become very successful.

Listening posts must be designed and used to measure satisfaction, of course, but they must also be used to measure factors that will gauge the possible defection of satisfied customers.

## Take risks

Sometimes, talking and listening to customers, studying market research and one process after another, can stifle imagination and creativity. How can a new product or service be introduced without solid approval from its target customers? How can any product make it without the blessing of a hundred focus groups? However, we need only to look at the histories of some of the most successful businesses to find that they were founded on products that focus groups rejected.

Do your market research. Listen to your customers. Deliver the best service. But use your imagination. Don't be afraid to let a new product or service create a need. Don't let the data drive you. You need to drive the data.

## Overview

This section provides interactive exercises so you can practice what you've learned. These exercises are self-checks only; your answers will not be used to evaluate your performance in the topic.

### Scenario

Assume the role of a manager in a fictional situation and explore different outcomes based on your choices (5-10 minutes).

### Check Your Knowledge

Assess your understanding of key points by completing a 10-question quiz (10 minutes).

## Scenario: Part 1

Easy Order, Inc., is taking a serious look at its strategy. With the advent of the Internet, the mail-order industry experienced exciting growth. But for the past two years, a tight economy has taken its toll. Easy Order's revenues have stopped growing and settled into a holding pattern. Market research shows that Easy Order isn't gaining or losing customers, and the existing customers are purchasing products at a steady level.

Arnold manages Easy Order's Marketing group. To stimulate revenues, Easy Order has approved a small increase in the marketing budget—just enough for one marketing campaign. Arnold and his group know they need to "get it right." In a tense atmosphere, the group has hotly debated how to best use their limited funds—and which customers the marketing campaign should target.

What would you advise Arnold and his group to do?

- Target old "tried and true" customers

Correct choice.

Targeting loyal customers will likely be the most profitable strategy. Studies show that the longer customers are loyal, the more profitable they become. Loyal customers create a steady stream of revenue at a lower marketing and service cost. They are more likely to buy new products targeted at their needs. And loyal, satisfied customers give positive personal referrals—the best kind of marketing: effective and free.

- Target broadly to bring in new customers to increase revenues

**Not the best choice.**

Targeting a broad range of new customers is not the best strategy, given the limited budget. The cost of attracting new customers is five or more times the cost of retaining existing customers. Targeting loyal customers would likely bring in more additional revenue at a lower cost. Existing customers are more likely to buy new products and become more profitable over time.

- Target narrowly to bring in a new market segment

**Not the best choice.**

Targeting a new market segment, even if narrowly focused, is not likely to bring in as much additional revenue as targeting existing customers. Given the limited budget, Easy Order needs to get the most "bang for its buck." It would be better to target existing, loyal customers, which requires a lower marketing cost. The cost of attracting new customers is five or more times the cost of retaining existing customers.

## Scenario: Part 2

Arnold's group decides to target established, loyal customers. The marketing initiative—dubbed "Lift Loyalty"—is companywide. The goal is to increase customer loyalty and encourage loyal customers to buy more products. Employees on the front line are encouraged to look for ways to increase loyalty and sales.

Arnold has lunch with a colleague, Brenda, who manages Customer Orders. Her group takes orders over the phone and Internet. Brenda tells Arnold that she's worried: Her front-line employees are growing frustrated and disgruntled. In fact, she recently lost two employees. One complained she "couldn't do a good job." The other said, "It's not enough just to tell us to *look for* ways to increase customer loyalty." To support the marketing initiative, Brenda knows she needs to turn things around—quickly.

What should Arnold advise Brenda to do?

- Investigate whether the increased demands of the marketing initiative are contributing to employee dissatisfaction

#### Not the best choice.

It's unlikely that the "increased demands" are contributing to the dissatisfaction. However, an inability to successfully carry out the marketing initiative may well be causing frustration. One employee said, "It's not enough just to tell us to *look for* ways to increase customer loyalty." This comment suggests that employees don't feel they have the *means* to carry out the initiative. Employees on the front lines likely need more latitude to make on-the-spot decisions and take immediate action—for example, offering a customer free shipping if that's what it takes to keep her loyal.

- Increase employees' responsibility and give them more latitude

#### Correct choice.

One employee said she "couldn't do a good job." The employees on the front lines likely need more latitude to make on-the-spot decisions and take immediate action to support the marketing initiative. These employees are in the best position to have a positive impact on customer loyalty. Also, employees who can "make a difference" tend to enjoy their work more, stay longer, and become even more productive. Research shows that employees place a high value on latitude—the freedom to make decisions and the ability to deliver results to customers.

- Replace the employees who left with new hires who have the right skills for the customer orders job

#### Not the best choice.

Skills are not enough. Successful service organizations hire first for attitude and second for skills. People can always learn new skills, but it's difficult to train someone to have the right—customer-focused—attitude.

## Scenario: Part 3

Employees tell Brenda they don't feel they have the authority to back up words with action. For example, one employee wanted to extend the sale price on an item for a customer who just missed a sale. Brenda quickly gives employees authority to make such decisions on the spot.

Brenda has lunch with a colleague, Carl, who manages Customer Service. His group handles complaints. Carl tells Brenda about a recent call. An angry customer complained that a bathing suit was too small and the color wasn't right—although the size and color matched the order. He



insisted the sizing was wrong. The customer service rep uncovered that the customer was leaving that day on vacation and had hoped to take the new suit with him. The rep considered three responses.

How should the customer service rep have responded?

- Politely explain that the order was correctly filled, offer to send an exchange or process a refund, and rebuild goodwill by giving the customer a \$50 gift certificate

**Not the best choice.**

A gift certificate will not solve the customer's problem: He needs a bathing suit for his vacation. The situation calls for creative service recovery. Research shows that when a company proactively recovers from a perceived or actual mistake, customer loyalty and profitability *increase*. In this case, the mistake may be only in the customer's mind. However, the rep can still recover the situation and rebuild the customer's loyalty.

- Offer to send a different size in another color—and then follow up afterward to see if there are any sizing problems with the bathing suit

**Not the best choice.**

An exchange may solve the problem, but not in time for the customer's vacation. Following up to see if there is a sizing issue—while appropriate—doesn't solve the customer's immediate problem. Only creative service recovery can help. And research shows that customers who experience creative service recovery tell others about it *more* often than those who experience routinely good service the first time!

- Offer to overnight two bathing suits, in another size and two alternative colors, to the vacation address

**Correct choice.**

While it's unlikely that the company made a mistake in this case, the customer was clearly frustrated and dissatisfied. Research shows that recovering from perceived poor service can actually increase customer loyalty and profitability. Indeed, customers who experience creative service recovery tell others about it *more* often than those who experience routinely good service the first time! Sending alternative bathing suits, overnight, to the vacation spot is creative service recovery that would certainly boost customer loyalty. And that customer will probably tell others about it. The added shipping cost to retain this existing customer is negligible compared to the cost of acquiring a new customer.

## Scenario: Conclusion

Three managers at Easy Order have helped their employees carry out a marketing initiative from its inception to implementation on the front lines. Arnold's Marketing group decided to target loyal customers, who are more likely to bring in additional revenue than new customers. Brenda increased employee capability by empowering her Customer Order employees to make decisions on the spot. And Carl's Customer Service representatives concentrated on creative service recovery in their effort to increase customer loyalty. The companywide effort to "Lift Loyalty" began to show results over time, as revenues gradually "lifted" in an upward trend.

### Activity: Check Your Knowledge: Question 1

What are the "three Rs" of customer loyalty?

- Revenues, retention, and returns

**Not the best choice.**

Though loyal customers do bring revenues and retention does suggest loyalty, returns have nothing to do with customer loyalty. The three Rs of customer loyalty are actually retention, related sales, and referrals—all of which explain why loyal customers are most profitable. Through *retention*, loyal customers continue to buy products. Through *related sales*, they buy new products and services. Through *referrals*, customers praise your company to other people. The three Rs reduce costs, because new sales to existing customers require less marketing, eliminate the hassle of new credit checks, and create less paperwork than selling to new customers. Also, the cost of actually serving and supporting a customer who is familiar with a company and its product lines generally decreases over time.

- Retention, related sales, and referrals

**Correct choice.**

The three Rs explain why loyal customers are most profitable. Through *retention*, loyal customers continue to buy products. Through *related sales*, they buy new products and services. Through *referrals*, customers praise your company to other people. The three Rs reduce costs, because new sales to existing customers require less marketing, eliminate the hassle of new credit checks, and create less paperwork than selling to new customers. Also, the cost of actually serving and supporting a customer who is familiar with a company and its product lines generally decreases over time.

- Recognition, reward, and research

**Not the best choice.**

Though companies may recognize and reward loyal customers as well as conduct research on loyalty, these are not the "three Rs" of customer loyalty. The three Rs are retention, related sales, and referrals—all of which explain why loyal customers are most profitable. Through *retention*, loyal customers continue to buy products. Through *related sales*, they buy new

products and services. Through *referrals*, customers praise your company to other people. The three Rs reduce costs, because new sales to existing customers require less marketing, eliminate the hassle of new credit checks, and create less paperwork than selling to new customers. Also, the cost of actually serving and supporting a customer who is familiar with a company and its product lines generally decreases over time.

## Check Your Knowledge: Question 2

How much does the *typical* marketing budget devote to seeking new customers versus maintaining current customers?

- 90% to seeking new customers; 10% to maintaining current customers

**Correct choice.**

Most companies today don't work very hard at developing relationships with long-term customers. Instead, they focus almost all their energy on getting new customers. They mistakenly believe that, to make a profit, they must increase market share. This belief leads to the misguided notion that any customer is a good customer.

- 20% to seeking new customers; 80% to maintaining current customers

**Not the best choice.**

This ratio doesn't reflect what most companies devote to seeking new customers versus maintaining current customers. The correct answer is "90% to seeking new customers; 10% to maintaining current customers." As these figures reveal, most companies today don't work very hard at developing relationships with long-term customers. Instead, they focus almost all their energy on getting new customers. They mistakenly believe that, to make a profit, they must increase market share. This belief leads to the misguided notion that any customer is a good customer.

- 50% to seeking new customers; 50% to maintaining current customers

**Not the best choice.**

This ratio doesn't reflect what most companies devote to seeking new customers versus maintaining current customers. The correct answer is "90% to seeking new customers; 10% to maintaining current customers." As these figures reveal, most companies today don't work very hard at developing relationships with long-term customers. Instead, they focus almost all their energy on getting new customers. They mistakenly believe that, to make a profit, they must increase market share. This belief leads to the misguided notion that any customer is a good customer.

## Check Your Knowledge: Question 3

Which of the following statements is accurate about target customers?

- Their expectations remain stable over time.

**Not the best choice.**

This statement is *not* accurate, because target customers' expectations actually evolve over time. The correct answer is "They place the highest value on the goods and services your company offers." Target customers greatly appreciate your company's offerings, so they remain loyal over time. The most successful firms know exactly who their target customers are, focus their energy on creating offerings to please them, and adapt their products and services to meet and exceed these customers' changing expectations.

- They change companies to find the best prices and capture big incentives.

**Not the best choice.**

This statement is *not* accurate, because target customers actually don't jump from company to company looking for the lowest prices and biggest incentives. The correct answer is "They place the highest value on the goods and services your company offers." Target customers greatly appreciate your company's offerings, so they remain loyal over time. The most successful firms know exactly who their target customers are, focus their energy on creating offerings to please them, and adapt their products and services to meet and exceed these customers' changing expectations.

- They place the highest value on the goods or services your company offers.

**Correct choice.**

Because target customers highly value your company's offerings, they remain loyal over time. The most successful firms know exactly who their target customers are, focus their energy on creating offerings to please them, and adapt their products and services to meet and exceed these customers' changing expectations.

## Check Your Knowledge: Question 4

Which mutually reinforcing connections form the "service-profit chain"?

- Innovative services and products, attractive pricing, and incentives for customer loyalty

**Not the best choice.**

Though innovative offerings, attractive pricing, and incentives for customer loyalty can all be valuable, they do not represent the mutually reinforcing connections forming the "service-profit chain." The service-profit chain consists of these mutually reinforcing links: employee capability, job satisfaction, and productivity; employee loyalty; and customer satisfaction. Here's how it works: When employees have the right skills, support, and rewards, they find their jobs more satisfying. People who enjoy their work become loyal to the company. Loyal employees take time to get to know customers' specific needs and circumstances, creating customer satisfaction and loyalty. And as we've seen, loyal customers are profitable customers.

- Employee capability, job satisfaction, and productivity; employee loyalty; and customer satisfaction

**Correct choice.**

Here's how the service-profit chain's mutually reinforcing connections work: When employees have the right skills, support, and rewards, they find their jobs more satisfying. People who enjoy their work become loyal to the company. Loyal employees take time to get to know customers' specific needs and circumstances, creating customer satisfaction and loyalty. And as we've seen, loyal customers are profitable customers.

- A healthy marketing budget, higher-than-expected profits, and deep understanding of customer needs

**Not the best choice.**

Though a healthy marketing budget, higher-than-expected profits, and deep understanding of customer needs may all be good things, they do not represent the mutually reinforcing connections forming the "service-profit chain." The service-profit chain consists of these mutually reinforcing links: employee capability, job satisfaction, and productivity; employee loyalty; and customer satisfaction. Here's how it works: When employees have the right skills, support, and rewards, they find their jobs more satisfying. People who enjoy their work become loyal to the company. Loyal employees take time to get to know customers' specific needs and circumstances, creating customer satisfaction and loyalty. And as we've seen, loyal customers are profitable customers.

## Check Your Knowledge: Question 5

High employee turnover can harm the service-profit chain by disrupting continuity with customers, increasing customer defections, and reducing profitability. What's the *first* step you would take to reduce employee turnover?

- Take stock of which skills your employees need to provide excellent customer service, and provide the training needed to close any skill gaps

**Not the best choice.**

While trying to close skill gaps with training may be useful, it would not be the *first* step to preventing employee turnover.

The first step is hiring people with a customer-focused attitude, with the idea that you'll train them in the skills they need for their jobs. Why? Skills can be taught, but it's difficult to train someone to have the right attitude. When you select for attitude and train for skills, you set the "employee cycle of success" in motion. You complete the success cycle by providing the tools and support employees need to excel, giving them latitude to deliver value to customers, and rewarding them for their contributions to high-quality service.

- Provide your current best employees with incentives and recognition, to ensure that they stay with the company

**Not the best choice.**

While providing your best employees with incentives and recognition may be useful, it would not be the *first* step to preventing employee turnover.

The first step is hiring people with a customer-focused attitude, with the idea that you'll train them in the skills they need for their jobs. Why? Skills can be taught, but it's difficult to train someone to have the right attitude. When you select for attitude and train for skills, you set the "employee cycle of success" in motion. You complete the success cycle by providing the tools and support employees need to excel, giving them latitude to deliver value to customers, and rewarding them for their contributions to high-quality service.

- Hire people with a customer-focused attitude, with the idea that you'll train them in the skills they need for their jobs

**Correct choice.**

Skills can be taught, but it's difficult to train someone to have the right attitude. When you select job candidates for their customer-focused attitude and train them to acquire needed skills, you set the "employee cycle of success" in motion. You complete the success cycle by providing the tools and support employees need to excel, giving them latitude to deliver value to customers, and rewarding them for their contributions to high-quality service.

## Check Your Knowledge: Question 6

Which of the following is the *best* step to take when trying to support the service-profit chain for your department or group?

- Ensure that the frontline employees who have the most direct contact with customers feel the most ownership for delivering results customers want

**Not the best choice.**

Ensuring that only frontline employees who have the most direct contact with customers feel the most ownership for delivering results customers want is not enough to support the service-profit chain. *Everyone* in an organization must have a customer-focused attitude in order to support the service-profit chain. No one should be exempt, not even workers who spend little or no time in front of customers. For example, a talented software programmer who lacks a customer-focused attitude may delay product releases, annoying customers *and* his teammates—and causing both to defect.

- Reward your longest-tenured customer-facing employees for measurable demonstrations of politeness, empathy, and knowledge in their customer dealings

**Not the best choice.**

Rewarding only long-tenured customer-facing employees for measurable demonstrations of politeness, empathy, and knowledge in their customer dealings isn't enough to support the service-profit chain. *Everyone* in an organization needs to have a customer-focused attitude. No one should be exempt, not even workers who spend little or no time in front of customers. For example, a talented software programmer who lacks a customer-focused attitude may delay product releases, annoying customers *and* his teammates—and causing both to defect.

- Ensure that all the direct reports who work in your unit take responsibility for delivering the results that your company's customers want

**Correct choice.**

Great frontline service—in the form of polite, empathetic, and knowledgeable customer-facing employees—is not enough. *Everyone* in an organization needs to have a customer-focused attitude in order to support the service-profit chain. No one should be exempt, not even workers who spend little or no time in front of customers. For example, a talented software programmer who lacks a customer-focused attitude may delay product releases, annoying customers *and* his teammates. Unhappy customers and employees may defect, breaking the service-profit chain.

## Check Your Knowledge: Question 7

You've decided to conduct an audit, one of the "listening posts" through which companies can learn what products and services customers want and how to better serve customers. Which of the following would you do to conduct the audit?

- Be a mystery shopper by visiting one of your company's retail or other business sites and pretending to be a customer

**Correct choice.**

Audits can generate highly objective information about how customer service can be improved. Audits take many forms. Perhaps the most popular is mystery shopping, whereby someone visits the company's retail or other business sites and acts as a customer; makes calls to customer-service providers; or actually consumes the company's products or services. But be sure to use audits to gather useful information, not to assign blame or punish people for making customer-service mistakes. Otherwise, employees may view auditing as unfair or as a form of spying.

- Gather a large or small informal group of target customers together to test an initial product idea, design, or concept

**Not the best choice.**

This is a focus group, which isn't the same as auditing. Audits take many forms. Perhaps the most popular is mystery shopping, whereby someone visits the company's retail or other business sites and acts as a customer; makes calls to customer-service providers; or actually consumes the company's products or services. Audits can generate highly objective information about how customer service can be improved. But make sure to use audits to gather useful information, not to assign blame or punish people for making customer-service mistakes. Otherwise, employees may view auditing as unfair or as a form of spying.

- Commission a research company to study customer demographics, lifestyles, buying habits, and preferences

**Not the best choice.**

Market research isn't the same as auditing. Audits take many forms. Perhaps the most popular is mystery shopping, whereby someone visits the company's retail or other business sites and acts as a customer; makes calls to customer-service providers; or actually consumes the company's products or services. Audits can generate highly objective information about how customer service can be improved. But make sure to use audits to gather useful information, not to assign



blame or punish people for making customer-service mistakes. Otherwise, employees may view auditing as unfair or as a form of spying.

## Check Your Knowledge: Question 8

To further use "listening posts," you decide to initiate a program of follow-up satisfaction calls. What guidelines would you provide the people who would be conducting these calls?

- Take the opportunity to ask extensive questions about how the customer perceives the company's offerings and service quality

### Not the best choice.

Asking extensive questions may annoy the customer. To avoid that scenario, follow-up calls should be brief, take place shortly after the transaction with the customer, and be a sincere effort to ask about and provide service—not to "push" other products. Therefore, the correct answer is "Ask if everything's okay, present a few simple questions about the company's offerings, and provide additional service if needed."

Handled skillfully, follow-up satisfaction calls can help your company spot service-recovery problems before they begin, and can reveal more general information about what target customers value or do not value. They can also help establish trust between the company and the customer.

- Ask if everything's okay, present a few simple questions about the company's offerings, and provide additional service if needed

### Correct choice.

Follow-up satisfaction calls can help your company spot service-recovery problems before they begin, and can reveal more general information about what target customers value or do not value. They can also help establish trust between the company and the customer. However, to avoid annoying the customer, follow-up calls should be brief, take place shortly after the transaction with the customer, and be a sincere effort to ask about and provide service—not to "push" other products.

- Besides asking about and providing service, describe additional offerings the customer may find valuable or interesting

### Not the best choice.

Describing additional offerings may annoy the customer. To avoid that scenario, follow-up calls should be brief, take place shortly after the transaction with the customer, and be a sincere effort to ask about and provide service—not to "push" other products. Therefore, the correct answer is "Ask if everything's okay, present a few simple questions about the company's offerings, and provide additional service if needed."

Handled skillfully, follow-up satisfaction calls can help your company spot service-recovery problems before they begin, and can reveal more general information about what target customers value or do not value. They can also help establish trust between the company and the customer.



## Check Your Knowledge: Question 9

How is the Customer Value Equation expressed?

- Price plus results, divided by product quality plus promotional investment

**Not the best choice.**

The elements of the Customer Value Equation are *results* (did the product or service generate the outcome the customer wanted?), *process quality* (was the offering delivered in a dependable, timely, and professional manner?), *price* (was it reasonable?), and *access costs* (were the costs incurred to obtain the product or service reasonable?).

The Customer Value Equation is thus expressed as "results plus process quality, divided by price plus access costs." Customers' perceived value of a product or service they've purchased *increases* when they feel that (a) the offering generated valuable results and was delivered in a dependable, timely, and pleasant way and (b) the price and any costs associated with obtaining the product were reasonable.

- Product plus price, divided by promotional effort plus "place" (distribution channel used)

**Not the best choice.**

The elements of the Customer Value Equation are *results* (did the product or service generate the outcome the customer wanted?), *process quality* (was the offering delivered in a dependable, timely, and professional manner?), *price* (was it reasonable?), and *access costs* (were the costs incurred to obtain the product or service reasonable?).

The Customer Value Equation is thus expressed as "results plus process quality, divided by price plus access costs." Customers' perceived value of a product or service they've purchased *increases* when they feel that (a) the offering generated valuable results and was delivered in a dependable, timely, and pleasant way and (b) the price and any costs associated with obtaining the product were reasonable.

- Results plus process quality, divided by price plus access costs

**Correct choice.**

Customers' perceived value of a product or service they've purchased *increases* when (a) they feel the offering generated valuable results and was delivered in a dependable, timely, and pleasant way and (b) they feel that the price and any costs associated with obtaining the product are reasonable.

## Check Your Knowledge: Question 10

A colleague tells you she's concerned because an order that recently went out to a customer was delivered late, and the product suffered damage during shipment. What might you tell her about

recovery from customer-service mistakes?

- Dissatisfied customers are more likely than others to give feedback about problems and voice complaints directly to the company.

**Not the best choice.**

*Satisfied*, not dissatisfied customers are most likely to give feedback about problems and voice complaints directly to your company. The correct choice here is "Recovering from service mistakes can actually increase customer loyalty and contribute to a company's profitability."

Customers who experience creative service recovery tell others *more* often than those who experience routinely good service the first time. Thus it's vital for companies to find ways to listen to satisfied customers' complaints; provide fast, personalized service recovery—and get it right the second time. Successful service companies recover quickly and learn from their mistakes.

- Recovering from service mistakes can actually increase customer loyalty and contribute to a company's profitability.

**Correct choice.**

Customers who experience creative service recovery tell others more often than those who experience routinely good service the first time. Thus companies can increase customer loyalty and profits by finding ways to provide fast, personalized service recovery—and get it right the second time. Successful service companies recover quickly and learn from their mistakes.

- Customers who experience creative service recovery tell others less often than those who experience good service the first time.

**Not the best choice.**

Customers who experience creative service recovery tell others *more* often than those who experience good service the first time. The correct choice here is "Recovering from service mistakes can actually increase customer loyalty and contribute to a company's profitability."

Because customers who experience creative service recovery tell others more often than those who experience routinely good service the first time, it's vital for companies to find ways to listen to satisfied customers' complaints, provide fast, personalized service recovery—and get it right the second time. Successful service companies recover quickly and learn from their mistakes.

## Check Your Knowledge: Results

# Your score:

## Steps for calculating the lifetime value of a customer

1. Think about an average customer in your organization.

If your organization serves several very different market segments, you may want to choose customers from each segment and repeat this activity for each of those customers.

2. **Enter the number of sales transactions the average customer makes with your organization in the lifetime of his or her relationship with your company.**

These transactions may be made in person or through a phone call, an order form, or a contract.

3. **Enter the average number of items or services that a customer purchases during each transaction.**

If you provide service to customers on a contractual basis, write the number 1 in to represent one contract.

4. **Enter the average price per item that the customer pays.**
5. **Enter the average cost of acquiring a new customer.**

A simple estimate of this cost would be the annual advertising expenses divided by the number of new customers. Use this method, or develop your own.

### **Marketing and advertising cost calculator**

Annual marketing and advertising expenses: \_\_\_\_\_

Number of new customers per year: \_\_\_\_\_

Divide annual advertising and marketing expenses by the number of new customers you acquire in one year. (This is how much it costs you to acquire a new customer.) \_\_\_\_\_

6. **Use this information with the calculating tool to determine the lifetime value of an average customer.**
7. **Repeat the calculations for a loyal, satisfied customer.**

Compare the answer to that for a new customer. Remember, when you compare a new customer to a loyal customer, a loyal customer is more likely to:

- Buy from you over a longer period
- Visit your organization more frequently
- Buy more during each interaction
- Be willing to pay more
- Refer other customers to you

8. **Share the results of your calculations with all employees.** There is no better way to impress upon them the importance of loyal customers and the value of customer satisfaction and retention.

## **Steps for developing listening posts**

1. **Determine your listening posts.**

List points at which your organization receives customer feedback—for example, sales representatives, marketing research results, telephone representatives, customer service representatives, or servers.

2. **Interview employees to find out what feedback they are receiving.**
3. **Organize the feedback.**

Categorize the significant types of feedback from each listening post. Feedback can include such things as suggestions for new product features, confusion about service terms, or annoyance about waiting for product delivery.

#### **4. Determine the current use of the feedback.**

Find out how feedback is being used. Is it being used to make product improvements or to create better service agreement instructions? Is it talked about and then ignored?

#### **5. Decide how feedback *should* be used.**

Take action to help you use valuable feedback. Involve your employees in coming up with ways to make feedback more useful by converting it into data they can use in their jobs.

### **Steps for improving listening posts**

#### **1. Review the feedback that is being received.**

#### **2. Look at the timing of information received.**

Is the information coming in at the right time? Can the feedback be obtained earlier? Many listening posts can be used more proactively to prevent problems before they occur.

#### **3. Decide what you want to know about customer behavior.**

There are information gaps about customers in every organization. Why are customers loyal? Why do satisfied customers defect? Why do new customers come here? Brainstorm the big-picture information the organization needs about retention, defection, and overall satisfaction and ways of getting it.

#### **4. Design ways to use listening posts to find out what you want to know.**

Develop questions to uncover patterns in customer behavior. For example, when an order is being taken, representatives in many organizations ask new customers, "How did you hear about us?" When properly recorded and tracked, the answer to this simple question is invaluable. It helps assess advertising and marketing efforts, as well as the rate of referrals.

#### **5. Establish a process to build in new questions at key listening posts.**

People asking questions must understand why they are asking the questions, and they must have an easy-to-follow process to gather the information. Simple forms, brief weekly meetings, and informal chats are all ways to be sure that good questions are being asked at the right time.

#### **6. Assess the need for new listening posts.**

Many organizations are adding a "follow-up" satisfaction call to the listening posts they already have. Once you have redesigned your current listening posts, ask yourself if you need to add other types.

### **Steps for mapping out a service process**

#### **1. Choose a service process that many employees perform—one that has a strong impact on customer satisfaction and is prone to problems.**

2. **List the activities involved in the process.** Use a separate note, index card, or sheet of paper for each activity.
3. **Arrange the activities in the sequence in which they occur.** Indicate how long it takes to complete each step.
4. **Transfer this information to a work process map.** Add or subtract levels as appropriate.
  - List people involved down the left (vertical) side of the map.
  - Divide the horizontal axis of the map into appropriate segments of time, such as hours or days.
  - Arrange the work activities in sequence from left to right across the map with arrows to indicate the flow. You may find it helpful to represent each activity with a numbered box and include a legend below to name and describe them.
5. **Brainstorm with the group to determine fail points.**

Fail points are:

- Inefficiencies
- Unnecessary steps
- Lost time
- Any factor that inhibits timely, high-quality products or services

You'll see that the two dimensions of the map (vertical and horizontal) provide new insights regarding cost and customer satisfaction.

6. **Study the map from different perspectives.** Put yourself in your customers' shoes. Then ask again how you can change the work process to eliminate fail points and to deliver better service.

## Steps for achieving excellent service recovery

1. **Find out what the problem is.**
  - Listen carefully to the customer's explanation of the problem.
  - Ask questions to clarify.
  - Paraphrase to be sure you understand the problem.
2. **Find out what the customer expects to be done about it.**
  - Listen to what the customer wants you to do about the problem.
  - If the customer's expectations can be met, offer assurances that the problem will be solved.
3. **Take personal responsibility for solving the problem.**
  - Offer to help.
  - Don't pass the problem along to someone else.
  - Know the policies of your organization.
  - Explain the options calmly.
4. **Go out of your way to make the customer comfortable.**
  - If you know that a problem may take awhile to solve, do whatever you can to make the customer comfortable during the wait.
  - Don't leave a person on hold for more than two minutes. Instead, offer to call back.
  - In a face-to-face situation, suggest the customer wait in a more comfortable area, or come back in an hour.
  - Offer lunch, coffee, or magazines—anything to show that you care and that you will solve the problem.
5. **Maintain an objective frame of mind.**

When someone is angry, don't take it personally. The person is angry at the problem, not at you. So just listen. Let the person who is angry get his or her feelings out.

**6. Stay positive and calm.**

- Apologize for the difficulty, even when it was not your fault.
- Don't blame others for the problem.
- Never tell an external customer that the problem is something that always happens.

**7. Resolve the problem quickly.**

- Think resourcefully. Try to determine the fastest and most effective way to solve the problem.
- Offer reasonable alternatives if you can't give them exactly what they want.
- If you need to get someone else involved, explain the problem so the customer does not have to repeat it. And stay involved, even when someone else is helping.

**8. Follow through.**

- At a later time, make sure that the problem was solved to the customer's satisfaction.
- Never ask the customer whether the problem was solved or what happened. You should know these answers.
- Send a letter of apology, a gift, or premiums such as coupons, a free item, or additional service.

**9. Look at the big picture.**

- Determine if the problem is a recurring one. If so, figure out ways to prevent it from happening again.
- Work with others to find out how they solve similar problems.
- Try to put a dollar cost on poor recovery.

**10. Look for common sources of problems in the recovery process itself.**

For example, the source of the problem may be one of the following:

- Inappropriate selection of people to handle recovery
- Inadequate internal support systems (information and other) to do the job
- Poor training
- Insufficient latitude (within limits) allowed by management to deliver results to customers
- Inadequate recognition and reward for good service recovery

## Steps for creating a customer-focused design process

**1. Observation: Determine who should be observed, who should do the observing, and what behavior should be observed.**

The observers could be customers, noncustomers, or the customers of customers. The best way to capture the most important aspects of the environment and people you choose to observe is to send out a small team. Each team member should have expertise in a different discipline. An engineer, for example, may notice angles and mechanical interactions, while a designer may see space and forms.

At least one member of the team should have experience in behavioral observation. Another member should have a deep understanding of the organizational capabilities the development team can draw on. If the team comes from an outside consulting firm, be sure that some of your own group members are included to provide knowledge of your organization's capabilities. Open-mindedness, keen observational skills, the ability to actively listen without speaking, and curiosity characterize a good design team. The people being observed should be carrying out normal

routines—playing, eating, relaxing, or working at home or at the office. For some products or services, team members may conduct their observations in a highly unobtrusive way. For example, by simply planting themselves in a public setting where people are going about their normal routines, team members can watch behaviors systematically.

## 2. Capture the data.

The best data will be captured through silent observation, but observers may want to ask a very few open-ended questions, such as:

- "Why are you doing that?"
- "Describe to me your most recent or most memorable \_\_\_\_\_ [the activity that is your focus, for example, fishing, making a bank deposit, installing software]."

Observers may carry a list of questions to prompt their own observations, such as, "What problems is the user encountering?"

Video can capture subtle body language that may convey important information and store it for future review and analysis. Still photographs or drawings can show spatial arrangements and contain details that may have gone unnoticed while the team was on location. These can also be useful to convey information that might be lost in a verbal description. If video is unavailable or too obtrusive, an audiotape recording may be useful to capture conversations during a service encounter. You may also choose to rely on good note-taking by observers as being the least obtrusive data-capture method.

## 3. Collate and analyze the data.

Present the data collected (including photos, drawings, videos, audiotapes) to colleagues and/or customers who did not take part in the observation. These individuals—unbiased by possibly extraneous information, such as the reputations of the people or organizations visited—will see different things than the observation team. As they observe the data your observation team collected, ask them:

- If they see any problems
- If they see any opportunities
- If they have any other comments

Ask the observation team to remain silent while the others make their observations. Once the others are finished making their comments, you can probe them for more details—but not until they are completely finished with their comments. After reviewing the data, you may find it necessary to return for more observation. Use the data to identify all of the possible problems or needs of those observed.

## 4. Brainstorm for solutions.

Heed the five rules of brainstorming: defer judgment, build on the ideas of others, hold one conversation at a time, stay focused on the topic, and encourage wild ideas. You may want to include some customers, noncustomers, or competitor's customers in the brainstorming session.

Be sure to provide any supporting infrastructure needed. This can be as low-tech as flip charts or a table covered in paper used for doodling and note-taking. At the end of a session, members can tear off the best ideas and take them home to ponder.

In coming up with possible solutions or ideas, be as concrete as possible. You may want to draw or represent visually some of the ideas.



## 5. Narrow the field of solutions.

Determine your criteria for choosing solutions. For example:

- What functions are essential (from your customers' point of view) and what are "nice-to-haves"?
- What criteria are determined by the company's values?
- What are your cost constraints?
- What are your size or shape constraints (for a product)?
- Within what time must you complete the project?
- In what ways must the product or service be compatible with existing products or services?

Given these constraints, determine which solutions are most feasible.

## 6. Develop prototypes of possible solutions.

- Prototypes clarify the concept of the new product or service for the development team. (Or they may show the lack of clarity in your product or service.)
- Prototypes enable the team to place its concept in front of other individuals whose functions are not formally represented on the team.
- Prototypes can stimulate reaction and foster discussion with potential customers.
- Sometimes two prototypes are used when demonstrating a product—one that shows function but not form, and one that shows the physical appearance of the intended product but doesn't work.
- Simulations can be useful prototypes. Role-playing can also be used as a prototype of particular behaviors or actions, such as a service product.

## Tips for selecting the right people

- Start with your hiring criteria. Make a prioritized list of the most important attributes and qualities of your most successful customer-service employees.
- Encourage job candidates to self-select into or out of a position. When candidates have a clear picture of the work, they are better able to decide for themselves if they will thrive in the job. Candidates who are unsuited for the work are likely to select out of the job—before you make a bad hire.
- Consider a variety of creative recruiting techniques, such as involving customers in the selection.
- Look for referrals from star performers. Winners attract winners.

## Tips for providing tools and support

- Think about your own group. Does it have the systems in place that enable it to succeed? What are the barriers?
- Think about your customers, external and internal. What are their common complaints? What do customers want that your tools and systems do not support?
- Be sure that any new support systems you consider are in line with your organization's strategy. For example, will the new systems help you better deliver the results that your customers truly want? How will they affect the way in which work is currently performed? Will the new systems require training?

## Tips for granting latitude within limits



- To determine if employees are given enough latitude, ask employees if they feel micromanaged. Ask them what decisions they feel they could be making that they are not allowed to make now. Determine which processes or procedures impede their ability to make decisions.
- Set limits in one of two ways: clearly define what employees can and cannot do, or define a core set of required standards. As long as those standards are met, employees can have freedom to do what it takes to meet internal and external customers' needs.
- Make sure that the latitudes and limits for your work group enable them to meet external and internal customer needs and deliver the results and service value that customers want.

## Tips for rewarding performance

- Determine the results and goals—the more specific and measurable, the better—you want employees to achieve.
- Align rewards with the organization's mission and culture. For example, if getting people to work together cooperatively is a company goal, don't set up a highly competitive reward structure.
- Look for creative ways to recognize individuals or groups. For example, establish programs in which awards are given by peers or even by customers. Or, share profits with those who participated in generating them.
- Announce achievements in company newsletters, on bulletin boards, on your corporate intranet, or in a companywide e-mail. Let everyone know who succeeded and why.

## Worksheet for calculating the lifetime value of a customer

Worksheet for Calculating the Lifetime Value of a Customer				
Use this worksheet to calculate the Lifetime Value of one of your customers.				
Customer name:				
Basic Formula				
Estimate # of customer transactions in lifetime	Number of purchases per visit	Average price per purchase (\$)	Cost to acquire a customer (\$)	Lifetime Value of a Customer (\$)
	X	X	-	=
Projected Formula, 5 Year Period				
Revenue (Include gross revenue generated)	-	Cost (Calculate costs to service this customer, including marketing, and costs of making and delivering product or service)	+	Referrals (Add net value of referred accounts)
				= Profit (\$)
Year 1	-		+	=
Year 2	-		+	=
Year 3	-		+	=
Year 4	-		+	=
Year 5	-		+	=
TOTAL:				

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## Customer Value Equation worksheet

<i>Customer Value Equation Worksheet</i>	
<p><i>Use this worksheet to think through what your customers value, which you can think of as an equation. The service value as determined by the customer is equal to the results received times how the service is delivered, in relation to the price of the service times any costs for acquiring the service. The values in the equation are relative, since different customers often want different things, or the same customer may want different things at different times. For example, you may value convenience and the opportunity to save time more in one situation, or price in another. Think through how you can leverage the factors in this equation to add value to the customer, and enhance your business.</i></p>	
<p><b>What Customers Value</b> Fill in this equation with descriptions of what your customers value. You do not have to use a specific dollar amount in the price category, but could use descriptive terms such as high, low, competitive pricing, every-day low-price (EDLP), premium, discounted, and so forth.</p>	
<p style="text-align: center;"><b>RESULTS</b></p> <p style="text-align: center;"><i>What results do your customers want?</i></p> <div style="border: 1px solid black; height: 40px; margin-top: 10px;"></div>	<p style="text-align: center;"><b>DELIVERY/PROCESS QUALITY</b></p> <p style="text-align: center;"><i>How do they want the results delivered?</i></p> <div style="border: 1px solid black; height: 40px; margin-top: 10px;"></div>
X	
<p><i>Look at the above in relationship to the factors below.</i></p>	
<p style="text-align: center;"><b>PRICE</b></p> <p style="text-align: center;"><i>What price are they willing to pay for the product or service?</i></p> <div style="border: 1px solid black; height: 40px; margin-top: 10px;"></div>	<p style="text-align: center;"><b>ACCESS COSTS</b></p> <p style="text-align: center;"><i>What costs are they willing to incur to get the product or service?</i></p> <div style="border: 1px solid black; height: 40px; margin-top: 10px;"></div>
X	
<p><b>Value Summary</b></p> <p>What are the key customer value equations most prevalent in your business?</p> <div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div> <p>What factors or situations could affect these equations? What ones can you alter or control?</p> <div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div> <p>How can you leverage these factors to increase the value of your service (or product) to the customer? <i>For example, increase convenience while keeping price the same.</i></p> <div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div>	

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## Worksheet for calculating employee turnover

<i>Worksheet for Calculating Employee Turnover</i>			
<p><i>This worksheet is fairly general. Estimate the data, and then enter it in the columns below.</i></p>			
Factors	Average Employee	New Employee	Difference
Revenue per week			
Cost per week			
Contribution per week			
<p>Average estimated cost to hire new employee</p>			
<p>Average estimated cost to train new employee</p>			
<p>Estimate revenues lost by vacant position</p>			
<p>Cost of on the job support, including supervision provided</p>			
<p>Cost of single employee turnover (Add hiring, training, revenue, job support costs)</p>			
<p>Number of replacement employees per year</p>			
<p><b>Annual cost of employee turnover</b> (Cost of employee times number of replacement employees per year)</p>			

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# Worksheet for calculating the cost of replacing a specific employee

<i>Worksheet for Calculating the Cost of Replacing a Specific Employee</i>	
<i>Use this form to calculate the cost of employee turnover in one position or salary range per year. Calculate costs for replacement employees only. Do not calculate costs for employees hired to fill new positions.</i>	
Position:	Salary level:
<b>Hiring Costs</b>	
<b>Direct costs to hire one new employee</b>	
Advertising	
Average fee to employment agencies, placement firm	
Sign-on bonus	
Referral bonuses to other employees	
Travel and expenses (include your expenses and money you reimburse to prospective candidate)	
Other direct costs	
<b>Total Direct Costs to Hire</b>	
<b>Indirect costs to hire one new employee</b>	
<i>Estimate the costs incurred by having all current employees perform the following activities related to a new hire:</i>	
Interviewing (costs of current employees at all levels of interviewing, from initial phone call through final interviews)	
Checking references	
Lost revenue (include costs of time spent away from actual jobs)	
Miscellaneous indirect costs (phone, copy, fax)	
<b>Total Indirect Costs to Hire</b>	
<b>Training Costs</b>	
<b>Direct costs to train one new employee</b>	
Time spent by person/people directly responsible for training new hire to do job. Cost per hour times number of hours.	
Cost per participant of general training programs, training materials, seminars for new hires	
Travel and expenses per participant for above	
Other direct costs	
<b>Total Direct Costs to Train</b>	
<b>Indirect costs to train one new employee</b>	
<i>Estimate the time spent by all current employees who are involved in training a new candidate:</i>	
General training in company technology and procedures, processes, etc.	
On-the-job training costs before employee becomes fully productive	
<b>Total Indirect Costs to Train</b>	
<b>Lost Productivity Costs (note: this section applies to any job that has sales or productivity measures that can be converted to dollar amounts)</b>	
<b>Indirect costs incurred until employee is performing at expected level</b>	
Lost revenues for the time the position is vacant (multiply the revenues a typical employee generates per month by the number of the months the position will be vacant)	
Lost revenue during the time the employee is getting up to speed (calculate the difference between the revenues a new employee generates and what an existing employee generates during the training and transition period)	
<b>Total Lost Productivity Costs</b>	
<b>TOTAL COST OF REPLACING A SINGLE EMPLOYEE</b>	
<b>Annual Cost of Employee Turnover</b>	
<i>To calculate the annual cost of employee turnover, multiply the cost of replacing one employee times the number of replacements each year.</i>	

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## Customer feedback chart

<i>Customer Feedback Chart</i>				
Use this form to record data when you are evaluating listening posts and feedback pathways. The completed chart can guide the improvement of current listening posts, and the development of new ones.				
Listening Post	Types of Feedback	Current Destination	Desired Destination	Current Use(s) of Feedback
Example Customer Service	Complaint: product malfunction; customer wants to return the product	Returns Dept.	Report of returns to Returns Dept., Product Group, Marketing, Sales	Improve product performance and development.

Improving the Effectiveness of Listening Posts	
Question	Response
1. Are some current listening posts collecting valuable data that is not being forwarded and used effectively in the organization? What? Why not?	
2. How do you want the feedback to be used?	
3. Are there new listening posts that should be set up to collect additional data?	

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## Worksheet for developing satisfaction goals for customers

<i>Worksheet for Developing Satisfaction Goals for Customers</i>	
<i>Use this worksheet to brainstorm goals in target areas.</i>	
<b>Target Area</b>	<b>Satisfaction Goal</b>
<b>Style of Interaction</b> <i>How do you interact with your customers now?</i> <i>How could you make it more personal?</i> <i>More informative?</i> <i>More effective?</i> <i>More fun?</i>	
<b>Timing</b> <i>How promptly do you respond to your customers' requests?</i> <i>Could your response time be faster?</i>	
<b>Attitude</b> <i>What attitude do you express to each customer?</i> <i>Can your attitude be more focused?</i> <i>Helpful?</i> <i>Concerned?</i>	
<b>Communication</b> <i>How do you communicate with your customer?</i> <i>Do you listen effectively?</i> <i>Do you ask the right questions?</i> <i>Do you speak clearly?</i>	
<b>Policies and Procedures</b> <i>What policy or procedure most annoys your customers?</i> <i>What policy or procedure most frequently gets between you and your customer?</i> <i>How can you change it?</i>	
<b>Employee Latitude</b> <i>Do employees have the ability to take initiative and solve problems instantly?</i> <i>In what areas do they wish they had more freedom to solve problems on their own?</i>	

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## Improving a work process worksheet

Improving a Work Process Worksheet			
<p>Choose a work process that many employees perform, that has a strong impact on customer satisfaction, and that is prone to problems. With a representative group, break the process down into a series of sequential activities or steps, then dig deeper to uncover improvement opportunities or "fail points". Fail points are inefficiencies, unnecessary steps, lost time, or any other factor that inhibits timely, quality products or services from being produced or delivered to the customer. When you've identified a problem, ask, "Why does this happen?" Continue repeating the question to probe for cause/effect relationships. This will help assure that the work process improvement isn't just fixing a symptom, but the problem.</p>			
Work Process:			
Activities <i>List each step or activity in the process, in sequence.</i>	Value <i>Does this add value for the customer? Organization?</i>	Problem <i>Are there fail points here? Why? Improvement opportunities?</i>	Solutions <i>Brainstorm solutions or improvements.</i>
1.			
2.			
3.			
4.			
5.			
6.			
7.			

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## Service quality assessment

<h2><i>Service Quality Assessment</i></h2>																
<i>Use or adapt this form to survey your internal or external customers on the level of service they received from your organization. You can modify the questions within this document for a service or manufacturing industry, or specifically tailor the questions to your business.</i>																
<b>Service Quality Assessment</b>																
<i>Please use a rating scale from 1 to 5 to indicate how satisfied you are with the level of service you received when you placed your order. On the left side, please rate the importance of each item to you. Then, on the right side indicate your degree of satisfaction with our performance. Use NA if the item is not applicable to you.</i>																
Importance											Satisfaction					
Low		High									Low		High			
1	2	3	4	5							1	2	3	4	5	
					Speed with which your call is answered											
					Helpful, courteous customer service or sales representative											
					Representative takes time to answer all questions											
					Ability to speed up an order in a rush situation											
					Speed with which you received your order											
					Good condition of order upon arrival											
					Ease of returning a product											
					Ability to trace an order											
					Fast and effective problem resolution											
					Representative knowledgeable about product											
					Representative treated you like a valued customer											
					Other:											
<b>How can we improve our service to you?</b>																
<i>Please describe below your suggestions about how we can improve the quality of our service to you.</i>																
<b>Please return this form:</b>																
<i>Via e-mail to:</i>																
<i>Via mail to:</i>																
<i>Via FAX to:</i>																
<i>We thank you for your business and look forward to serving you again.</i>																

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## Why Develop Others?

“At the end of the day, you bet on people, not strategies.”

Larry Bossidy  
Former CEO, AlliedSignal

In today's global business environment, markets and regulations change quickly. Competitors constantly innovate. Technological changes are the norm.

In order to outmaneuver the competition and meet the demands of the moment, organizations must be agile. They must execute flawlessly. And they must transform themselves continuously.

## Are your leaders ready?

Dr. Noel M. Tichy  
Professor  
University of Michigan Ross School of Business

We have now entered an era where I don't care what industry you're in, you need leaders who



can make decisions, make judgment calls at every single level. All the way down to the interface with the customer.

If you go to a company like Google or any of the high tech companies, a lot of the innovation that Amazon does is happening right at the front line. Go ahead, try it, put it out there, we'll learn from it. That cannot happen if the senior leadership doesn't have a commitment to both develop the leadership capability, but develop the business through engaging people at all levels of the organization.

### Becoming a teaching organization

I like to tell parents that they cannot delegate their responsibility to develop their children. And I think it is the same in an organization. Day in and day out the person that has the biggest impact on people in the organization is the next level above and the associates around and below. And so to build a learning organization I say is not enough. Learning could be, you know we are learning cooking, we are learning this or that, but teaching organizations, when I learned something, I have a responsibility to teach my colleagues.

So everybody takes responsibility for generating new knowledge and it is not enough to be a learner, you then have to translate it into teaching.

### The Virtuous Teaching Cycle

The role of a leader is to ensure that the people who work for them and around them are better every day. There's only one way to make people better. It's to teach them, learn from them, create what I call "virtuous teaching cycles", not command and control.

A virtuous teaching cycle is teach learn, teach learn. And the leader has a responsibility for reducing the hierarchy, for having a point of view to start the discussion, but then to be responsible to hear everyone's voice, get everyone involved in a disciplined way. It is not a free for all. But it is the leader's responsibility to create that virtuous teaching cycle.

A wonderful example of virtuous teaching cycle is the program that Roger Enrico ran at Pepsi, where every one of the 10 vice presidents comes with a business project.

Roger Enrico gets smarter as result of five days with 10 vice presidents, because he's learning from them. He needs to lower the hierarchy. He needs to be open to learning. And in turn, the people participating need to be energized and empowered to come up and engage in problem solving.

Another example is at Best Buy, where every morning in the stores you would bring 20 associates or so together and they would review the profit and loss statement from the day before, what we learned from the different customer segments in our stores, what we can do to improve our performance this day. And they do that every single day. The store manager was learning mostly from the associates on the floor.

That was a virtuous teaching cycle where everybody is teaching everybody, everybody is learning and the result has been an incredible result at Best Buy.

"The growth and development of people is the highest calling of leadership."

- Harvey S. Firestone

Founder, Firestone Tire and Rubber Co

There are clear advantages to leader-led development.

But for many leaders, taking on teaching, coaching, and other development responsibilities can seem daunting. You might avoid taking on these roles due to lack of time, resources, or your own lack of comfort with this role.

The following tips and resources can help you impart valuable learning to your team every day.

To develop others...

- Start with a Teachable Point of View

The first requirement of being able to develop other leaders is to have what I call a teachable point of view. I often give the example of, if I ran a tennis camp and you just came to day one of the tennis camp, I better have a teachable point of view on how I teach tennis. So you are standing there looking at me and it has got four elements. One, the ideas, well how do I teach the backhand, the forehand, the serve, rules of tennis. Then if I am a good tennis coach, I have a set of values. What are the right behaviors I want, how do I want you to dress, how do I want you to behave on the tennis court.

But if that's all I have, what do I do? Show you a power point presentation and then expect you to hit 500 backhands, 500 serves, run around for eight hours. I have to have a teachable point of view on emotional energy. How do I motivate you to buy in to the ideas and values?

On one end of the spectrum it could be I threaten you with corporal punishment, the other I can give you stock options, I can make you feel good about yourself, I can help you develop as a human being, what motivates you.

And then finally, how do I make the tough judgment calls, the yes/no, decisions as the tennis coach, the ball is in, the ball is out. I don't hire consultants and set up a committee, it is yes/no. And the same with running a business, what are the products, services, distribution channels, customer segments that are going to grow top line growth and profitability of the organization.

What are the values that I want everyone in the organization to have, how do I emotionally energize thousands of people, and then how do I make the yes/no, judgments on people and on business issues. So the fundamental building block of being able to develop other leaders is to have that teachable point of view just like the tennis coach.

To develop others...

- Lead with questions

Questions are hugely important because you want to create dialogue and again, what I call a virtuous teaching cycle where the teacher learns from the students and vice versa. Which means everybody ought to be free to ask whatever is on their mind, whatever it will take to get clarity and understanding, but it is not the leader just coming in and freeform asking questions. I believe the leader has a responsibility for framing the discussion, for having as best they can a teachable point of view, they may need help from their people in flushing it out, but they need to set the stage but then it has to be a very interactive, what I call virtuous teaching cycle environment, teach learn, teach learn, teach learn.

To develop others...

- Make it part of your routine

A good example to me of an outstanding leader developing other leaders is Myrtle Potter who at the time I am commenting was Chief Operating Officer of Genentech running the commercial side of the business. And she would take time at the end of every single meeting and do some coaching of the whole team on how we could perform as a team better, and then she would

often take individuals and say, could we spend 10 minutes over a cup of coffee, I want to give you some feedback and coaching on that report that you just presented on or how you are handling a particularly difficult human resource issue, but it was part of her regular routine. And I think the challenge for all of us as leaders is to make that a way of life and it is built into the fabric of how we lead and it is not a one off event, three times a year. It is happening almost every day.

To develop others...

- Make it a priority

One of the biggest challenges in getting people kind of on this path is to overcome some of their own resistance, either fear or the way I view the world I don't have time for this, everybody can make time. Roger Enrico is CEO of Pepsi. He didn't have time to go off for a week at a time and run training sessions. He had to readjust his calendar. So it requires you to look in the mirror and say, is this important. If it is important, of course I can make the time. Then I have to get over my own anxiety on how well I can do it, but it is a commitment to get on the path that says: this is how I am going to drive my own performance and the performance of my colleagues.

To develop others...

- Learn to teach

I think the biggest mistake is to assume you are going to be good at it right off the bat. It is like learning anything else. First time you go out and try and play tennis, good luck. But you got to stay with it and you got to engage your people in helping make you better and them better. And so it is a journey you need to get on, not I am going to do it perfectly when I start out.

If you want to be a great leader who is a great teacher, it's very simple. You have got to dive into the deep end of the pool. But you've got to dive into the pool with preparation. I don't want you drowning. I want you succeeding. It is extraordinarily rewarding for most human beings to teach others. I think once you can turn that switch on, it is self perpetuating. You get a lot of reinforcement, your team is better. You perform better because your performance goes up and it becomes this virtuous teaching cycle.

Your opportunity to develop others

We've heard why developing others can drive greater business results, and how to make the most of your leader-led development efforts. The materials provided in Develop Others enable you to create personalized learning experiences for YOUR team within the flow of their daily activities. Use the guides and projects to engage your team quickly. And to explore how key concepts apply to them in the context of their priorities and goals.

The value of teaching is the performance of the organization is totally dependent on making your people smarter and more aligned every day as the world changes. In the 21st century we are not going to get by with command and control. We are going to have to get by with knowledge creation. The way you create knowledge in an organization is you create these virtuous teaching cycles where you are teaching and learning simultaneously, responding to customer demands and changes, responding to changes in the global environment. My bottom line is if you're not teaching, you're not leading.

A leader's most important role in any organization is making good judgments — well informed, wise decisions about people, strategy and crises that produce the desired outcomes. When a leader shows consistently good judgment, little else matters. When he or she shows poor judgment nothing else matters. In addition to making their own good judgment calls, good leaders develop good judgment among their team members.

**Dr. Noel M. Tichy**

**Professor, University of Michigan Ross School of Business**

Dr. Noel M. Tichy is Professor of Management and Organizations, and Director of the Global Business Partnership at the University of Michigan Ross School of Business. The Global Business Partnership links companies and students around the world to develop and engage business leaders to incorporate global citizenship activities, both environmental projects and human capital development, for those at the bottom of the pyramid. Previously, Noel was head of General Electric's Leadership Center at Crotonville, where he led the transformation to action learning at GE. Between 1985 and 1987, he was Manager of Management Education for GE where he directed its worldwide development efforts at Crotonville. He currently consults widely in both the private and public sectors. He is a senior partner in Action Learning Associates. Noel is author of numerous books and articles, including:

For more information about Noel Tichy, visit <http://www.noeltichy.com>.

## Share an Idea

Leaders are in a unique position to recognize the ideas and tools that are most relevant and useful for their teams. If you only have a few minutes, consider sharing an idea or tool from this topic with your team or peers that is relevant and timely to their situation.

For example, consider sending one of the three recommended ideas or tools below to your team with your comments or questions on how the idea or tool can be of value to your organization. By simply sharing the item, you can easily engage others in important conversations and activities relevant to your goals and priorities.

[Steps for developing listening posts](#)

[Tips for rewarding performance](#)

[Customer feedback chart](#)

To share an idea, tip, step, or tool with your comments via e-mail, select the EMAIL link in the upper right corner of the page that contains the idea, tip, step, or tool that you wish to share.

## Discussion 1: Building customer loyalty

Studies show that the longer customers are loyal, the more profitable they become. Loyal customers not only generate long-term revenue streams, they also refer new customers and provide valuable feedback. In short, your loyal customers are the lifeblood of current and future profitability.

You and your team can make substantial contributions to your unit or department by improving your capacity to foster customer loyalty.

Use these resources to lead a discussion with your team about: (1) How loyal are your current customers? (2) Are you targeting the right customers? and (3) How do you meet and exceed your customers' expectations?

Download resources:

[Discussion Invitation: Building Customer Loyalty](#)

[Discussion Guide: Building Customer Loyalty](#)

[Discussion Slides: Building Customer Loyalty \(optional\)](#)

[Tips for Preparing for and Leading the Discussion](#)

The discussion you have with your team will help individual team members to focus their efforts on building loyalty among its current customers.

Working through the discussion guide can take up to 45 minutes. If you prefer a shorter 15- or 30-minute session, you may want to focus only on those concepts and activities most relevant to your situation.

## Discussion 2: Getting to know your customer

A key difference between average and high-performing organizations is how effectively they generate customer feedback, listen to it, and then act on it. Instead of “telling” customers what they need through hard-sell pitches, the best companies focus on listening. Though most organizations have built-in mechanisms for getting customer feedback, many do not take full advantage of customer input to improve their offerings.

Use these resources to lead a discussion with your team about gathering feedback from your customers and making better use of customer feedback.

Download resources:

[Discussion Invitation: Getting to Know Your Customer](#)

[Discussion Guide: Getting to Know Your Customer](#)

[Discussion Slides: Getting to Know Your Customer \(optional\)](#)

[Tips for Preparing for and Leading the Discussion](#)

The discussion you have with your team will improve their understanding of your customers' needs, wants, and evolving preferences. It will also provide new ideas for applying customer data within your organization.

Working through the discussion guide can take up to 45 minutes. If you prefer a shorter 15- or 30-minute session, you may want to focus only on those concepts and activities most relevant to your situation.

## Start a Group Project

Just like any change effort, successfully incorporating new skills and behaviors into one's daily activities and habits takes time and effort. After reviewing or discussing the concepts in this topic, your direct reports will still need your support to fully apply new concepts and skills. They will need to overcome a variety of barriers including a lack of time, lack of confidence, and a fear of making mistakes. They will also need opportunities to hone their skills and break old habits. To help ensure their success, you can provide safe opportunities for individuals and your team as a whole to practice and experiment with new skills and behaviors on the job.

For example, to encourage the adoption of new norms, you can provide your team members with coaching, feedback, and additional time to complete tasks that require the use of new skills.

Management approaches such as these will encourage team members to experiment with new skills until they become proficient.

Group learning projects provide another valuable technique for accelerating team members' development of new behaviors. A group learning project is an on-the-job activity aimed at providing team members with direct experience implementing their new knowledge and skills. Through a learning project, team members discover how new concepts work in the context of their situation, while simultaneously having a direct and tangible impact on the organization.

The documents below provide steps, tips, and a template for initiating a group learning project with your team, along with two project recommendations for this topic.

Download resources:

[Tips for Initiating and Supporting a Learning Project](#)

[Learning Project Plan Template](#)

[Learning Project: Calculate the Lifetime Value of a Customer](#)

[Learning Project: Survey Customers and Analyze Feedback](#)

## Closing the Customer Feedback Loop

[Rob Markey, Fred Reichheld, and Andreas Dullweber. "Closing the Customer Feedback Loop." \*Harvard Business Review\*, December 2009.](#)

[Download file](#)

### Summary

Realizing that customer retention is more critical than ever, companies have ramped up their efforts to listen to customers. But many struggle to convert their findings into practical prescriptions for customer-facing employees. Some companies are addressing that challenge, say three Bain & Company consultants, by creating feedback loops that start at the front line. They forgo elaborate, centralized feedback mechanisms in favor of quickly polling customers with the question, How likely are you to recommend us? Firms use the responses to calculate their Net Promoter Score (NPS), a metric everyone in the organization can track. The greatest impact comes from relaying the results immediately to the employees who just served the customers—and empowering those employees to act on any issues raised.

## Leadership That Focuses on the Customer—Really

[Anne Field. "Leadership That Focuses on the Customer—Really." \*Harvard Management Update\*, July 2007.](#)

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### Summary

Many executives and managers exhort their followers to make the customer the center of everything they do. Yet for all the passion and conviction of their words, genuine customer focus remains theory

rather than practice. What can you do to make customer focus a reality in your organization? In this article, HMU distills expert wisdom on building customer satisfaction and loyalty.

## What Serves the Customer Best?

Paul F. Nunes, Woodruff W. Driggs, David Herman, Jeffrey F. Rayport, Stephen Dull, and Joe Scafido. "What Serves the Customer Best?" *Harvard Business Review*, October 2006.

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### Summary

As president of Scotch whisky maker Glenmeadie, Bob Littlefield is pleased to see the results of his CMO's recent marketing initiatives. There are new interactive capabilities on the company's Web site, a product information call center, and numerous other customer interfaces designed to deepen consumers' connection to the brand. Thanks to these front-end innovations, sales are up—and largely because of more loyal purchasing behavior, research shows. But not all the news is good. Glenmeadie's CFO says the marketing programs account for half the company's costs. Meanwhile, Glenmeadie's master distiller, Ellis Cameron, resents the fact that, with so much money going toward enhancing customer relations, there isn't enough left for his R&D efforts. In a meeting with Bob, he launches into a tirade about priorities. "There's an old expression," Ellis says, "Build a better mousetrap, and the world will beat a path to your door." Glenmeadie, he says, is neglecting the customer's basic need, "We've given up on redesigning his mousetrap and are trying to trap him instead!"

Commenting on this fictional case study are David Herman, president of luggage maker Hartmann; Markspace's president, Jeffrey Rayport; Stephen Dull, vice president of strategy at VF; and Joe Scafido, who leads innovation at Dunkin' Brands.